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HOUSE OF COMMONS

Fifth Session—Twenty-first Parliament

1951

(Second Session)

Government
Publications

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

CHAIRMAN—Mr. L. PHILIPPE PICARD

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

BILL 25

An Act to Provide for the Financial Administration of the Government of Canada, the Audit of the Public Accounts and the Financial Control of Crown Corporations.

WEDNESDAY, DECEMBER 5, 1951

FRIDAY, DECEMBER 7, 1951

MONDAY, DECEMBER 10, 1951

WITNESSES:

Mr. Watson Sellar, Auditor General.

Dr. W. C. Clark, Deputy Minister of Finance.

Mr. R. B. Bryce, Assistant Deputy Minister of Finance.

Mr. B. G. McIntyre, Comptroller of the Treasury.

Mr. H. R. Balls, Special Assistant (Accounting), Department of Finance.

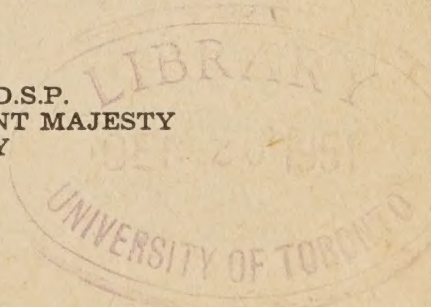
Mr. D. H. W. Henry, Solicitor to the Treasury.

OTTAWA

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1951



STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. L. Philippe Picard.

Vice-Chairman: Mr. D. A. Croll

and MESSRS.

Anderson	Cloutier	Kirk (<i>Digby-Yarmouth</i>)
Ashbourne	Decore	Larson
Argue	Denis	Macdonnell (<i>Greenwood</i>)
Balcer	Fleming	Major
Beaudry	Fournier (<i>Maisonneuve-</i>	Maltais
Benidickson	Rosemont)	Noseworthy
Beyerstein	Fraser	Nowlan
Blue	Fulford	Pearkes
Boisvert	Fulton	Pinard
Boivin	Gauthier (<i>Portneuf</i>)	Richard (<i>Gloucester</i>)
Brisson	Gibson	Richard (<i>Ottawa East</i>)
Browne (<i>St. John's</i>	Harkness	Riley
West)	Helme	Robinson
Campney	Low	Sinclair
Cauchon	Jutras	Warren
Cavers	Kirk (<i>Antigonish-</i>	Wright—50
Churchill	Guysborough)	
Cleaver		

(Quorum 15)

R. J. GRATRIX,
Clerk of the Committee.

FRIDAY, 19th October, 1951.

ORDERS OF REFERENCE

Resolved,—That the following Members do compose the Standing Committee on Public Accounts:—

Messrs.

Anderson,	Croll,	Larson,
Ashbourne,	Decore,	Macdonnell (<i>Greenwood</i>),
Balcer,	Denis,	Major,
Beaudry,	Fleming,	Maltais,
Benidickson,	Fournier (<i>Maisonneuve-</i>	Nowlan,
Beyerstein,	<i>Rosemont</i>),	Pearkes,
Blue,	Fraser,	Picard,
Boisvert,	Fulford,	Pinard,
Boivin,	Fulton,	Richard (<i>Gloucester</i>),
Brisson,	Gauthier (<i>Portneuf</i>),	Richard (<i>Ottawa East</i>),
Brown (<i>St. John's</i>	Gibson,	Riley,
<i>West</i>),	Harkness,	Robinson,
Campney,	Helme,	Sinclair,
Cauchon,	Johnston,	Stewart (<i>Winnipeg</i>
Cavers,	Jutras,	<i>North</i>),
Churchill,	Kirk (<i>Antigonish-Guys-</i>	Thatcher,
Cleaver,	<i>borough</i>),	Warren,
Cloutier,	Kirk (<i>Digby-Yarmouth</i>),	Wright—50.
(Quorum 15)		

Ordered,—That the Standing Committee on Public Accounts be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

TUESDAY, 27th November, 1951.

Ordered,—That the following Bill be referred to the said Committee:—

Bill No. 25, An Act to Provide for the Financial Administration of the Government of Canada, the Audit of the Public Accounts and the Financial Control of Crown Corporations.

THURSDAY, November 29, 1951.

Ordered,—That the name of Mr. Low be substituted for that of Mr. Johnston on the said Committee.

WEDNESDAY, December 5, 1951.

Ordered,—That the said Committee be authorized to sit while the House is sitting.

Ordered,—That the said Committee be empowered to print, from day to day, 800 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered,—That the name of Mr. Argue be substituted for that of Mr. Thatcher on the said Committee.

Ordered,—That the name of Mr. Noseworthy be substituted for that of Mr. Stewart (*Winnipeg North*) on the said Committee.

MONDAY, December 10th, 1951.

Ordered,—That the Public Accounts of Canada and the Report of the Auditor General for the fiscal year ended March 31, 1951, which were tabled in the House on Wednesday, October 31, 1951, be referred to the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

WEDNESDAY, December 5, 1951.

The Standing Committee on Public Accounts begs leave to present the following as a

FIRST REPORT

Your Committee recommends:

1. That it be authorized to sit while the House is sitting.
2. That it be empowered to print, from day to day, 800 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

L. PHILIPPE PICARD,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, December 5, 1951.

The Standing Committee on Public Accounts met at 10.30 o'clock a.m. this day. Mr. Picard, Chairman, presided.

Members present: Messrs. Ashbourne, Beaudry, Beyerstein, Boisvert, Boivin, Browne (*St. John's West*), Campney, Croll, Fleming, Fraser, Fulford, Helme, Jutras, Kirk (*Antigonish-Yarmouth*), Major, Riley, Robinson, Sinclair, Thatcher, Wright.

On motion of Mr. Browne (*St. John's West*):

Resolved,—That Mr. Croll be Vice-Chairman of the Committee.

On motion of Mr. Sinclair:

Resolved,—That the Committee recommend to the House that it be authorized to sit while the House is sitting.

On motion of Mr. Riley:

Resolved,—That the Committee recommend to the House that it be empowered to print, from day to day, 800 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence.

The time at which the Committee would next meet was discussed and, having regard to the number of members of the Committee who are also members of other Committees sitting at the present time, it was agreed to meet again at 3.30 o'clock p.m., Friday, December 7, 1951, at which time the Committee would consider Bill No. 25, An Act to Provide for the Financial Administration of the Government of Canada, the Audit of the Public Accounts and the Financial Control of Crown Corporations.

The question of the witnesses to be called and heard on the said bill was then discussed and the Clerk was instructed to call the Auditor General, Mr. Watson Sellar; The Deputy Minister of Finance Dr. W. C. Clark; the Assistant Deputy Minister of Finance, Mr. R. B. Bryce; and the Comptroller of the Treasury, Mr. B. G. McIntyre. All of the said witnesses to be present at the next meeting of the Committee.

At 10.55 o'clock a.m. the Committee adjourned to meet again at 3.30 o'clock p.m., Friday, December 7, 1951.

FRIDAY, December 7, 1951.

The Standing Committee on Public Accounts having been called for 3.30 o'clock p.m., at 3.45 o'clock p.m. the following members were present: Messrs. Balcer, Boisvert, Cavers, Cloutier, Decore, Fulford, Gibson, Helme, Low, Jutras, Kirk (*Digby-Yarmouth*), Macdonnell (*Greenwood*), Noseworthy, Picard.

There being no quorum present, the Chairman, at the suggestion of several members of the Committee, postponed the meeting until Monday, December 10, at 3.30 o'clock p.m.

MONDAY, December 10, 1951

The Standing Committee on Public Accounts met at 3.30 o'clock p.m. this day. Mr. Picard, Chairman, presided.

Members present: Messrs. Anderson, Argue, Ashbourne, Benidickson, Boisvert, Brisson, Campney, Cavers, Croll, Fleming, Fournier, (*Maisonnette-Rosemont*), Fraser, Fulford, Fulton, Gauthier (*Portneuf*), Gibson, Harkness, Helme, Kirk (*Digby-Yarmouth*), Macdonnell (*Greenwood*), Major, Maltais, Noseworthy, Nowlan, Richard (*Ottawa East*), Riley, Robinson, Sinclair, Wright.

In attendance: Mr. Watson Sellar, Auditor General; Dr. W. C. Clark, Deputy Minister of Finance; Mr. R. B. Bryce, Assistant Deputy Minister of Finance; Mr. B. G. McIntyre, Comptroller of the Treasury; Mr. H. R. Balls, Special Assistant (Accounting), Department of Finance, and Mr. D. H. W. Henry, Solicitor to the Treasury.

The Committee commenced consideration of Bill No. 25, An Act to Provide for the Financial Administration of the Government of Canada, the Audit of the Public Accounts and the Financial Control of Crown Corporations.

Mr. Sinclair raised the question as to the propriety of having Mr. Sellar give evidence on all phases of the bill before the Committee and it was agreed that he would be heard on only that part of the bill relating to The Auditor General.

Dr. Clark was called, outlined the need for the proposed legislation before the Committee and made a statement in explanation of Parts I, II and III of the bill.

At 4.20 o'clock p.m. Mr. Croll, Vice-Chairman, took the chair.

Mr. Bryce was called and made a statement on that part of the bill relating to the Treasury Board (*Part I*).

Mr. McIntyre was called and made a statement on that part of the bill relating to Public Disbursements (*Part III*).

Mr. Sellar was called, made a statement on that part of the bill relating to The Auditor General (*Part VII*) and was questioned thereon.

The Committee then commenced a clause by clause consideration of the bill.

Clauses 1 and 2 were called, considered and adopted.

At 5.00 o'clock p.m. Mr. Picard, Chairman, resumed the Chair.

That part of Part I of the bill relating to the *Treasury Board*, being clauses 3 to 7 inclusive, was called, considered and adopted.

That part of Part I of the bill relating to the *Department of Finance*, being clauses 8 to 15 inclusive, was called, considered and adopted.

During the consideration of Part I of the bill the witnesses answered questions specifically referred to them.

At 5.50 o'clock p.m. the Committee adjourned to meet again at 11.00 o'clock a.m., Tuesday, December 11, 1951.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

December 10, 1951.

3.30 p.m.

The CHAIRMAN: Order, gentlemen.

We are here today to start consideration and study of bill number 25, an Act to Provide for the Financial Administration of the Government of Canada, the Audit of the Public Accounts and the Financial Control of Crown Corporations. We have with us as witnesses, Dr. W. C. Clark, Deputy Minister of Finance, who will be the first witness; we also have in attendance, I understand, Mr. Watson Sellar, Auditor General, Mr. R. B. Bryce, Assistant Deputy Minister of Finance, Mr. B. G. McIntyre, Comptroller of the Treasury, Mr. H. R. Balls, Special Assistant, Department of Finance and Mr. D. H. W. Henry, solicitor to the Treasury. I think it will be in order if Mr. Clark would start by giving us a general statement.

Mr. SINCLAIR: Mr. Chairman, I would like to raise one point of order before we start. I have before me a letter from Mr. Watson Sellar, the Auditor General, and I spoke to Mr. Macdonnell and yourself about this; he states that he thinks probably it would be better for all concerned if he were not asked to be in attendance during consideration of the early part of this bill. He feels that he should not be placed in a position where he has to comment on government legislation other than such parts of it as might relate strictly to audit matters. He points out that as far as his independence as an officer of parliament goes that he should be kept free from any commitment with respect to any part of the administration of this Act and that his official administrative position should be safe-guarded. The position is this: supposing we are discussing sections of this bill and he expresses an opinion favourable to the views of the opposition, he might be left open to a charge of favouring them; and, conversely, if he opposes certain sections he might be considered as being favourable to the opposition. I submit, Mr. Chairman, that that is not a desirable position for an officer of the House of Commons to be in, and I must confess that it had not occurred to me before. I do agree with him that he should not be placed in a position of expressing opinions either favourable to government legislation or opposed to it. Particularly, I doubt very much if we should ask him to give evidence on administration, except with respect to that part of the legislation which relates directly to the work of his organization. I would like to ask Mr. Macdonnell whether or not he agrees with me on that.

Mr. MACDONNELL: I think no, perhaps because I was away on Saturday. I do, however, see the point Mr. Sellar raises and it seems to me, indeed, I would feel that if the Auditor General thought he should not be heard, then that would settle it.

Mr. SINCLAIR: He is here. It is not that he thinks he should not be here. Perhaps Mr. Sellar can speak for himself, and perhaps, if the committee approves, he could speak for himself very quickly.

The CHAIRMAN: Would you care to comment, Mr. Sellar?

Mr. WATSON SELLAR (Auditor General): As Mr. Sinclair says, I brought up the question with him over the weekend; and Mr. Macdonnell complimented me by asking me my opinion on various matters in the Act, and I pointed out that I was in an awkward position, as Mr. Sinclair said—if I criticized the bill I

would be considered the chore boy of the opposition, and if I approved the bill I would be considered as carrying the ball for the government. I am not in that difficult position so far as the audit sections are concerned, as the Department of Finance consulted me with regard to that particular part. I am wholly in sympathy with it, and the pre-audit was eliminated at my request because if my staff pre-audited, then when we came to the final audit we passed up our errors, we were not going to show up our inefficiency, and for that reason I wanted the pre-audit sections out. There is only one other part concerning the audit, and that is the companies' part. That is a matter for the House to decide, but I did point out the other day to Mr. Sinclair that you do leave suspended in mid-air the audit of various companies now covered by the Defence Production Act when that Act expires in 1956.

The CHAIRMAN: Before we proceed I might point out that the Auditor General wrote to me from Paris that he was busy at the time as one of the auditors of the United Nations but was willing to report here on one day's notice, stating that his duty was to the Canadian Public Accounts Committee first. I wanted that put on the record because he said that he was willing to report and, if necessary, would take a plane to return here on time.

Mr. MACDONNELL: He was lucky that you were there, too, Mr. Chairman.

The CHAIRMAN: You know, I always take any remark favourably, rather than antagonistically. I have a good nature.

Mr. FULTON: On that point, I would certainly gather that we are in agreement with the Auditor General that the Auditor General should not be asked to comment on anything he thinks would be embarrassing—

The CHAIRMAN: He did not say "embarrassing".

Mr. FLEMING: To put him in an embarrassing position.

Mr. FULTON: Yes, but I would just want to be clear that this does not mean that by agreeing to that proposition that we are through with him on the question of the pre-audit, because I wanted to ask him several questions on that.

Mr. MACDONNELL: Mr. Chairman, do you think it would be better that we hear from Mr. Clark completely before asking him any questions?

The CHAIRMAN: I was going to suggest that we should give the deputy minister a free hand to complete what he has to say—not interrupt him—and then the question period may come after. That will be the ruling for the time being.

Dr. W. C. Clark, Deputy Minister of Finance, called:

The WITNESS: Mr. Chairman and gentlemen. This bill, as Mr. Abbott and Mr. Sinclair explained in the House, is a revision and a consolidation of all the essential measures relating to the financial administration of the government of Canada. I think we all agree that it was time that there should be an overhaul of these various measures and that they should be put together into one comprehensive statute. You are all familiar with the tremendous growth of the financial activities of government in the last few years. You can see it on the expenditures and revenue side, the number of employees, and so on. You may not have seen how far it extends in certain other directions. I was reading the other night an article I had to write for my sins back in 1938 on the financial administration of the government of Canada, and I saw that I started that article by giving some idea of the size and complexity of government operations. I will just call attention to one or two factors that indicate the growth since that time.

For instance, in cheques cashed, I pointed out at that time that 3.5 to 4 million cheques, involving a total expenditure of \$1.5 million a year, were

processed through the government machinery in the course of a year. This machinery in the last twelve months processed almost 35 million cheques, for a total of \$4,800,000,000, and next year there will be another nearly 700,000 cheques every month issued because of the old age pension program. Those of you who know something about the life history of cheques will realize there is a tremendous amount of work involved in all that. Bank drafts received and deposited have increased from 700 million to 4 billion in that time. The number of cancelled coupons on government bonds that have to be cashed has increased from 4,300,000 in 1938 to over 21,006,000,000 now. All this indicates a tremendous growth. The increased complexity is obvious from the fact that you have in the appendices to this bill not only 21 departments named, but you have also 10 departmental corporations, 11 agency corporations, and 12 proprietary corporations.

As someone pointed out, those are not all of the Crown corporations or the corporations that we have something to do with, but the fact that they are divided into these three groups or these three categories indicates the great complexity in the pattern. The titles themselves indicate the great diversity in the kind of business they do, the kind of operation they carry on.

There has been tremendous growth and increased complexity in the last few years and, more than that, the basic law in regard to our financial administration—the old Consolidated Revenue and Audit Act—goes back without any revision at all to the statute of 1931. While there was a substantial revision at that time, most of that bill goes back to the earlier Act of 1878, and a good deal of it in identical language. This Act in turn was closely modelled on the earlier British Act of 1866.

I think we have all for quite a long while realized that a thorough job should be done in revising the legislation and that we should try to bring it together in a consolidated statute. We, in the Department of Finance, have been working on it for several years but it was very difficult for the senior officials of the department to get down to it and get the job done.

Perhaps there was some advantage in that, as we look back on it, now because in the last two or three years we have had a tremendous amount of assistance from suggestions made in this Public Accounts Committee, of the House of Commons, and by the Auditor General.

Well, the bill is before you now and we believe it represents a tremendous improvement over the existing situation. We have simplified the old legislation; we have clarified it; we have tried to bring it up to date. We have filled in the gaps—at least those of the gaps we felt should be filled in, and made a great many other improvements all of which I think are designed to make the legislation a more effective instrument to carry out the will of parliament in regard to the collection, custody, and use of government funds.

I would like, Mr. Chairman, to illustrate what I have been saying about this improvement in the situation by referring to some of the specific changes that you will find in the bill and the reasons which have led to the changes. If I may make a suggestion, it would be that at this time we should confine ourselves to Parts I, II, III, and VII of the bill. Part I is on organization, Part II is on public moneys, Part III on disbursement and Part VII is on the Auditor General's section. I think those four parts will give you the heart of the bill or the guts of it, if I may use that expression. Most of the essentials are there and they are pretty complicated.

If we go through those parts first and postpone for later time discussion on public stores and Crown corporation, public debt, and others of more specialized provisions of the bill, I think we can avoid a good deal of confusion. Even what I have to say in the parts I have mentioned will involve a good deal of technical material.

First you will notice that the bill itself is entitled "The Financial Administration Act". We studied a good many alternatives to the present title "Consolidated Revenue and Audit Act" which we felt was not at all revealing to a student or member trying to find out where the law exists in regard to the financial operations of government. We finally decided that "The Financial Administration Act" was as descriptive a title as we could think of, one which would tell the story fairly clearly.

The definitions in Section 2, the interpretation section, are, I think you will find, a good deal clearer and more precise than the older definitions or the definitions in the old Act. I won't go into them now but I will have occasion to call attention a little later on to some of the more fundamental of the concepts there.

Coming to Part I. Part I deals with organization matters—that is to say with the status and function of the various officials and entities which comprise the administrative set-up of the government of Canada in so far as financial matters are concerned—apart from the Auditor General who is covered in a separate section.

You will note that Part I really takes the place of the Department of Finance and the Treasury Board Act, and of the old sections of the Consolidated Revenue Act which dealt with the Comptroller of the Treasury. We have brought together all of those sections dealing with organization in this first part of the Act. I think the reason for doing so is perfectly obvious.

First of the entities to be dealt with in Part I is the Treasury Board because that board is at the top of the hierarchy of the administrative agencies in the financial field. As you all know, the board is a committee of cabinet or council consisting of the Minister of Finance as chairman and five other ministers appointed from time to time by the Governor in Council.

The bill provides also for the continuation of a practice which has been followed by the Governor in Council recently of appointing alternates to the regular members. That is a tribute to the amount of work which has been performed by the board and the difficulty of having an adequate number of ministers at all times.

In subsection 1 of section 5 you will note that the board is to act as a committee of the King's Privy Council for Canada on all matters relating to finance, revenues, estimates, expenditures, financial commitments, accounts, establishments, the terms and conditions of employment of persons in the public service, and general administrative policy in the public service either referred to the board by the Governor in Council or which the board considers it desirable to act on, or on which it should act under other statutes.

Certain of the phrases in that enumeration such as "estimates, financial commitments," and so on are new, and in a later section of this bill there are other provisions which also extend the powers of the Treasury Board. I think we can satisfy you that all these extensions are justified. However, if you will look at section 4, you will find that there is a departure from the present Act in that while in the past the Deputy Minister of Finance has been ex officio secretary of the Treasury Board, the minister will henceforth designate an officer of the department to act as secretary. So this merely recognizes a situation which already exists.

The fact is that the volume and complexity of the work of the department have grown so rapidly in recent years that it has been impossible for the deputy minister to act as secretary. That is a full time job in itself and perhaps even more.

For some time Mr. Bryce with the assistance of Mr. Taylor, (another assistant deputy minister), on salary and establishment matters, has been spending most of his days and, I feel, many of his nights, in fact, too many of his nights, on Treasury Board matters.

I therefore thought, Mr. Chairman, that it would be best if Mr. Bryce should be the one to explain in more detail, in the statement which he will make in a few minutes, the changes in the Treasury Board section and why the minister has thought them desirable.

The CHAIRMAN: If I may say so, we have had Mr. Bryce before us as a witness before and we have been delighted with his cooperation with our committee. So it would be quite in order later on to have Mr. Bryce and he could explain first what he intends to do with the provisions of the act dealing with Treasury Board.

Mr. MACDONNELL: He has treated us very kindly.

The WITNESS: The following 3 sections deal with the Department of Finance, the Minister of Finance, and the Deputy Minister of Finance in substantially the same term as in existing legislation except that certain provisions relating to the duties of the deputy minister in regard to the keeping of an appropriation book, and receiving certain reports from financial institutions and so on have been deleted because they are now obsolete and no longer necessary.

The remaining section of this part deals with the status and some of the functions of the Comptroller of the Treasury. His main specified powers and duties will be found spelled out in other Sections of the bill particularly in part III of the bill.

Apart from dropping the subsection providing for his retirement at age 70, and thereby leaving his retirement to be determined, subject to good conduct, in the usual way under the provisions of the Civil Service Superannuation Act, as in the case of any other permanent civil servant, sections 11 and 12 are in practically the same terms as section 21 of the 1931 Act which, as you will recall, provided for the first appointment of a comptroller of the treasury.

That was the big and radical innovation introduced by the 1931 revision of the Audit Act, the setting up of an officer of the Department of Finance who, with his accounting representatives in every department, would act to provide centralized control or pre-audit of all expenditures of government and also perform certain expert accounting services required by the government.

I think I may say this: that thanks to their ability and character, the two officials who have held this office since 1931, Mr. Sellar and Mr. McIntyre, the innovation introduced in 1931 has, in our opinion, proved to be amply justified. But sometimes I wonder, now that we are getting so far away from the old system now which existed prior to 1931, whether we appreciate as fully as we should the tremendous load of work that has been thrown on the comptroller of the treasury and his staff and the tremendous contribution they are making to sound financial administration in this country.

In this bill it has not been found necessary to make any substantial modifications of the original conception of the comptroller's duties and responsibilities. Given in the 1931 Act, but you may have noticed from your examination of Part III that the bill does propose in certain respects to extend the Comptroller's powers and in other respects to strengthen his hands by giving legislative sanction to certain practices he has already adopted. There is also a section, section 15, it is the last section in that part, which authorizes him, on request of the minister of the department and with the approval of the Minister of Finance, to provide accounting services for a department in connection with the collection of the revenues, and to examine and report to the minister of the department on departmental collection and accounting practices and procedure. This section will give statutory sanction to what

is now done by informal arrangement in a number of cases. Mr. McIntyre in his statement will, I am sure, be willing to elaborate on any changes that affect him.

Now, I would like to make a few comments in regard to Part II of the bill, which deals with public money. Right at the start of this part, we run into the cardinal statutory requirement on the revenue side of government finance, namely, the creation of a single consolidated revenue fund into which all public money is required to be deposited to the credit of the Receiver General. That, I think, is the most important single principle on the revenue side, the greatest protection of the rights of parliament in the control of the public purse. This goes back to section 102 of the British North America Act.

Now, subsection 1 of section 16 should be read in conjunction with some of the definitions. Section 16 says, "all public money shall be deposited to the credit of the Receiver General." Well, what is public money? If you go back to section 2 (m) and you will find "public money" means all money belonging to Canada received or collected by the Receiver General or any other public officer in his official capacity or any person authorized to receive or collect such money, and includes

- (i) duties and revenues of Canada,
- (ii) money borrowed by Canada or received through the issue or sale of securities,
- (iii) money received or collected for or on behalf of Canada, and
- (iv) money paid to Canada for a special purpose.

That is public money.

Perhaps you should also look at the three preceding paragraphs, (j), (k) and (l). "money" includes negotiable instruments, in (j); (l) says that "negotiable instrument" includes any cheque, draft, traveller's cheque, bill of exchange, postal note, money order, postal remittance and any other similar instrument; and then (k) states that, "money paid to Canada for a special purpose" includes all money that is paid to a public officer under or pursuant to a statute, trust, treaty, undertaking, or contract, and is to be disbursed for a purpose specified in or pursuant to such statute, trust, treaty, undertaking or contract. That is public money.

Those four paragraphs give you the connotation, the whole meaning of public money, and I would call your attention, at the same time, to paragraph (e), a little further up on the page: "Consolidated Revenue Fund" means the aggregate of all public moneys that are on deposit at the credit of the Receiver General. Now, those concepts, I think, are stated in very precise and clear terms.

Mr. WRIGHT: Would that include—

The CHAIRMAN: I beg your pardon, Mr. Wright. It has been agreed that we would allow Dr. Clark to go on and make his statement without any interruptions. You were not here when we agreed to that, but after the statement has been made questions will be asked. In the meantime, we will continue to hear from Dr. Clark.

The WITNESS: As I said, I think the definitions are clear and precise now. I perhaps might also call attention, in passing, to the fact that "public money" and "consolidated revenue fund" speak in terms of cash receipts and a cash fund, and that, I think, is basic to effective parliamentary control of the public purse.

Subsection 2 of section 16—coming back to Part II again—authorizes the Minister of Finance to establish, in the name of the Receiver General, accounts with such banks and fiscal agents as he designates for the deposit of public money. This subsection is new, but it is just what we are doing now; it is in accord with the present practice. Subsections 3 and 4 are in accord with existing provisions, but are a little more flexible. Section 17 is a new provision designed to regulate a practice which for a long time has been followed by the Finance Minister in the purchase and sale of government securities, when he deems it advisable for the sound and efficient management of public money or the public debt to purchase, acquire and hold securities and pay therefor out of the consolidated revenue fund. Clear direction is given for the first time in regard to the accounting treatment to be accorded profit and losses on such investment operations.

Passing over some of the new sections in this part, some sections of minor importance, I should perhaps call special attention to the last two sections in the part namely sections 22 and 23. The remission powers to be exercised by the Governor in Council under section 22 are somewhat broader than under the corresponding provisions of the present law. Thus, power is given to remit not only taxes, duties or tolls, but also part or all of fees—fees paid, for instance, with respect to applications under a statute, such as the Companies Act, which for various reasons are not proceeded with or are withdrawn after application or submission. That is one of the changes. Power is also given to the Governor in Council when he considers it to be in the public interest, to exempt in advance any case or class of case from taxation or fee. This is intended to deal with such circumstances as arise in connection with the importation of essential goods that would not be imported or some project which would not be proceeded with unless there were firm assurances in advance of importation that the goods would not be subject to the tax or duty. A new requirement, also, to report in the public accounts every remission of \$1,000 or more will give statutory recognition to the Auditor General's present practice in reporting remissions.

Finally, section 23 is a new section, designed to enable the Governor in Council on recommendation of the Treasury Board to (a) extinguish or (b) delete from the accounts, without extinguishing, small debts owing to the crown that have been outstanding for many years. At the present time there is no parliamentary authority to write off such debts, and considerable expense has been incurred by departments in maintaining records of claims that are, in effect, valueless. This section implements, in part, a recommendation made by this committee in its third report to the House of Commons on June 22nd, 1950. However, you will note that the authority asked for in this section is rather limited and the committee may wish to consider whether it is not too limited, whether we have been too restrictive in the powers we ask for there. I may add, incidentally, that in respect of the other part of the recommendation of the committee in the report just mentioned, relating to the writing off of certain uncollectible debts accumulated up to 1940 (you remember that was the main bulk of this report I was speaking of), it is intended to implement this recommendation by an item in the main estimates for 1952.

I now come to Part III, which deals with the control of expenditures and may be considered to include some of the most essential, most fundamental provisions of the bill as a whole. In this part, there have been quite a number of changes in arrangement and in drafting which are intended merely to simplify and clarify the law. There are also a number of more significant changes designed to improve control over expenditures and financial commitments.

Before referring to these more important changes, I should perhaps call attention to three of four sections where any changes made consist only of

wording, but which sections incorporate other cardinal principles of parliamentary control over the public purse. I mentioned one such cardinal principle on the revenue side. There are also three or four cardinal principles on the expenditure side. I refer particularly to section 23, which provides that no payments shall be made out of the consolidated revenue fund except with the authority of parliament. That is, perhaps, the most important of all. The phrase "Subject to the British North America Act" refers to charges under sections 103, 104 and 105 of the British North America Act which provide for priority of claims on the fund for expenses of collection and management of the revenue, the salary of the Governor General, salaries of judges, and so on.

Then we come to the second cardinal principle in section 25, which provides that all estimates of expenditures submitted to parliament shall be for the services coming in course of payment during the fiscal year. "Coming in course of payment during the fiscal year" are the essential words there. Then there is section 35, a little bit later, which provides for the lapsing of appropriations at the end of each fiscal year, with a provision permitting payment to be made in the following 30 days where the payments are properly attributable to the preceding fiscal year. And perhaps the fourth main principle that I would call attention to in that group is a less important section, section 26, which requires a warrant of the Governor General for the release of supply. No supply can be released without a warrant of the Governor General.

It will again be noted here that as in the case of public money and the consolidated revenue fund, these provisions also speak in terms of cash transactions.

Now I come to the sections which relate in part or wholly to the Comptroller of the Treasury and the safeguards given by the Comptroller of the Treasury in connection with expenditures. These sections are, first, Section 29 is changed in form but not in substance from the present law, which requires each department at the beginning of each fiscal year to divide its appropriations into allotments in the form detailed in the estimates or in another form approved by the Treasury Board, and to submit them to the board through the comptroller. The purpose of this is to facilitate the maintenance of commitment and other financial controls controlled by the comptroller.

The second one is section 30, the basic purpose of which is to provide that no contract shall be entered into or have any force or effect unless the comptroller certifies that there are sufficient unencumbered funds in the appropriation to discharge any commitments coming in course of payment during the fiscal year. Two additions have been made in the present version of this section: (a) one of which, designed to meet a problem which arises in connection with certain major contracts in the early months of nearly every fiscal year, would allow a contract to be entered into on the basis of an item included in the estimates before the House of Commons—thus making it possible to take advantage of the best building season; and (b) the other making quite clear what is not now free from doubt—that departments must submit to the comptroller every contract as soon as it is made, whether or not it involves payments in the current year or in future years. On this basis, the comptroller may establish and maintain commitment records for current year's appropriations as well as those of future fiscal years.

The third section dealing with the comptroller's duties is section 31, which has a number of important provisions, some new, some old; (a) subsection (1), which for the first time makes it clear that one of the fundamental principles in connection with the disbursement of public money is that no charge may be made against a parliamentary appropriation except under authority and on the requisition of the appropriate minister; (b) subsection (2), which as at

present requires every requisition for a payment out of the consolidated revenue fund to be in such form, accompanied by such documents and certified in such manner as the comptroller may require.

Then you have subsection (3), which defines the types of requisition the comptroller shall reject—that is to say, where he thinks it would not be a lawful charge against the appropriation, where it would result in an expenditure in excess of the appropriation, or where it would reduce the balance below the amount available in the appropriation not already committed. The next is subsection (4), which is a new section and permits the comptroller to obtain the direction of the Treasury Board concerning any requisition of a department which is submitted to him. Subsection (5) provides for certain cases where the Treasury Board may overrule or confirm an action of the comptroller disputed by the department. This is substantially the same as it is at present. And lastly (I do not need to call your attention to this, it is of minor significance), subsection (7), a new section, which provides that where a cost audit is required to be made under a contract to determine the amount payable to a contractor, and the cost audit indicates that charges are included which in the comptroller's opinion should not be accepted, such costs or charges shall not be allowed as costs to the contract unless the Treasury Board otherwise directs. That is another enlargement of the comptroller's powers. Now, so much for that particular section, section 31.

There is another one I would like to call your attention to, and that is section 33, which is substantially unchanged and which requires that payments made out of an appropriation shall be made under the direction and control of the Comptroller of the Treasury by cheque drawn on the Receiver General in such form and authenticated in such manner as the Treasury Board directs. The second subsection is new but merely gives statutory recognition to the present practice whereby the chartered banks, through which the comptroller's cheques are presented daily to the cheque adjustment branch of the Department of Finance for payment, are reimbursed by a cheque drawn by the Receiver General on one or more of his bank accounts. This is to facilitate the work of the Department of Finance in the control and management of Receiver General cash balances.

So much for the sections that govern the duties and responsibilities of the duties of the Comptroller of the Treasury.

Of the other provisions of this part, I think I need only make brief mention of two or three others. One is section 28, which re-enacts the provisions of the old Act relating to the use of Governor General's warrants for urgent and unforeseen expenditures. The language is clearer and there has been added a provision requiring that each such special warrant be published in the *Canada Gazette* within 30 days after it is used and that a statement of all such special warrants and the amounts thereof be laid before the House of Commons within 15 days after the commencement of each session, as well as another provision permitting the issuance of a special warrant if an urgent, unforeseen expenditure is required when parliament is adjourned *sine die* or to a day more than two weeks after the accident happened or the need arose, as well as when parliament is not in session. This provision is made necessary by the practice which has developed in recent years of long adjournments. Secondly, there is a new provision in section 32, which makes clear that advance or progress payments may be made before completion of the work or delivery of the goods, if such are in accordance with the terms of the contract. Many cases arise where such payments are absolutely necessary. One of the things that has arisen in the last year or so was for purchases in the United States where down payments had to be made to purchase some government military or defence equipment. Thirdly, section 34, which places on the Minister of Finance responsibility for the administrative duty of receiving, examining and

adjusting paid cheques, etc., with the statement of cheques, etc., issued, and relieves the Auditor General of any such responsibility. The Auditor General, however, will under section 66(1) continue to have access to the cheque files for the purposes of his audit and he will also under section 34 continue to have the sole responsibility for making recommendations to the Treasury Board in respect of regulations governing the destruction of the paid cheques and other instruments.

(The Vice-Chairman assumed the chair).

Section 36, amongst other things authorizes the Treasury Board to make regulations in regard to accountable advances, and section 39, which is new and the purpose of which is to ensure that the Governor in Council has power to make regulations prescribing the conditions which shall govern the making of contracts involving an expenditure of public funds.

In addition to making such regulations that may be of general application, providing they are not inconsistent with any other Act, Council may, notwithstanding the provisions of any other Act, make regulations (a) fixing the amounts within which various types of contracts may be entered into without the approval of the Governor in Council or Treasury Board; and (b) prescribing the security to be given to secure due performance of contracts.

Now, Mr. Chairman, I have covered very inadequately and very technically, I am afraid, the main features of these first three parts of the Act, calling attention to the more significant sections and the more significant changes that have been made in the bill as compared with existing law, and indicating the reasons which the minister had in mind for recommending the changes. There remains to be referred to later today, according to my suggestions, only the provisions of Part VII relating to the responsibilities of the Auditor General, who is an officer of parliament and who would generally be called in contradistinction to the Comptroller of the Treasury, an outside or independent auditor, that is to say, an auditor independent of the administration. I would suggest, Mr. Chairman, that after Mr. Bryce has spoken on the Treasury Board sections, and after Mr. McIntyre has spoken on the sections relating to his work, that perhaps Mr. Balls, who is very familiar with these matters, could be asked to make a statement from the point of view of the Finance Minister on the provisions of Part VII of the bill. I think that is all.

The VICE-CHAIRMAN: Is it the desire of the committee that we should now proceed to hear Mr. Bryce, or do you want to question Dr. Clark?

The WITNESS: I think you should hear us all and then you will have the whole matter before you.

The VICE-CHAIRMAN: Is that satisfactory to the committee?

Agreed.

Mr. R. B. Bryce, Assistant Deputy Minister of Finance, called:

The WITNESS: Mr. Chairman, I think I can be relatively brief in regard to the Treasury Board aspects of this because I think Dr. Clark has already covered most of the points of any substance, and I would be prepared to answer any questions in regard to detail. On those few sections relating directly to the Treasury Board, broadly speaking, the intent of the minister here has been to bring the statute more clearly in line with the practice as it has developed over the past 25 years. That is the reason that specific mention is made in section 3 of alternate members of the board. That is, as Dr. Clark has mentioned, the reason for section 4 recognizing the necessity of a full-time secretary and the reason why various items were added to the advisory duties of the board. The field of duties of the board is in section 5. The thing that

is perhaps of most interest is subsection 2 of section 5, which is intended to streamline in some measure our central administrative procedure on routine administration matters. These four Acts that are mentioned here combine many sections that authorize the Governor in Council to take certain types of action. In effect, what happens on these matters is that the Treasury Board deals with them each week and following the Treasury Board meetings I will send up to the Clerk of the Privy Council a file of minutes of the board, perhaps a file an inch or so thick, to be approved by the Governor in Council, and while I am not aware of what takes place there in any detail, the ministers inform me that rarely do they have an opportunity to scrutinize this file of minutes in a useful way, unless there is some particular item that has previously been drawn to their attention.

What we are proposing to do here is to permit the Treasury Board to deal finally with those things with which they now deal and, in substance, that will save us a considerable amount of time and paper and work on the part of the secretarial staff. Of course, it is subject to subsection 4 which follows and which makes quite clear that the Treasury Board is subject to any direction of the Governor in Council. The Governor in Council must, of course, remain supreme as it always has been.

There is nothing new in Section 6 of any consequence.

Section 7 gives the board certain powers to make regulations in respect of collection, management, and accounting of public money, what one would expect, and it is in accordance with the spirit if not the detail of the old Act.

Paragraph B regarding records of property really arose out of discussions of this committee two years ago when members of the committee felt that there should be some systematic provision for records of property. This is establishing statutory authority for such systematic provision for those records.

Section (c) is intended to cover, as you will note, "subject to any other Act, prescribing rates of compensation, hours of work and other conditions of employment of persons in the public service;"

That really is giving the Treasury Board sort of residual responsibilities for those matters which the government must deal with as an employer, where it is not altogether clear in other Acts just where the responsibility may lie. For example, there is provision in the Civil Service Act, Section 59, for exempting certain classes from the effect of that item. We exempt, and have for many years exempted from it, what are called 'prevailing rate' employees who are paid prevailing rates in the localities for that trade. This will make quite clear, by statute, that the Board may make regulations covering the terms of employment of such employees—which it already does in default of action by any other central body, the Civil Service Commission for instance. So, this is not new in substance although it is a new statutory provision.

Subsection (d) is intended to deal with two types of payment to employees where it is considered—we considered it and the minister considered it—a sensible simplification to recognize that these payments had to be made to civil servants under certain conditions, in addition to the salaries that they are receiving. There is a section in the Civil Service Act which says—I have forgotten the actual wording—that a civil servant shall not receive any payment in addition to their regular salaries.

That section, as I recall the meaning of its origin, was to prevent duplicate salaries, allowances, and such payments growing up, so that you could not tell what individuals were in fact being paid. It had a very sensible purpose when it was introduced but it does not mean that when we pay allowances to persons in the public service, for example for travelling and that sort of

thing, that it is necessary to get exemptions under Section 59 of the Civil Service Act, the terms of which seem to us rather cumbrous and not intended to carry out what has been recognized by parliament and the government for many years as necessary procedures.

Paragraph (d) is intended to do that.

Mr. BENIDICKSON: I do not want to interrupt but I find this a very unsatisfactory way to carry on. I have no quarrel with the witnesses, but I have with our decision on procedure. It seems to me that if we have questions to ask while we are reading a section through and while we have the explanation in front of us, we should ask the questions and not wait until later when we probably will not even have Hansard before us to recall what the expert witnesses have had to say.

In addition, you are going through the bill section by section but we are not going to have time, if you do not take advantage of the time spent now, to read it.

The VICE-CHAIRMAN: It seemed, Mr. Benidickson, that if they gave us a bird's eye view of the bill it would be so much easier at the end when we went through it.

Mr. BENIDICKSON: I am not too familiar with future intentions but we certainly will not have the Hansard—

Mr. SINCLAIR: I am just putting entries on the page right across from the section and I am going to ask questions when we come back. I think the bird's eye view is most helpful and that all members have to do is make notations across from any section on which they wish to ask questions.

Mr. MACDONNELL: I am trying to do that.

Mr. BENIDICKSON: I hope we do not have to go back on these sections until we have a copy of Hansard.

The VICE-CHAIRMAN: Well we certainly will, Mr. Benidickson. We are not going to have Hansard when we deal with this bill.

Mr. SINCLAIR: Why can Mr. Benidickson not just put a mark on the opposite page to clause 7?

Mr. BENIDICKSON: I have not any questions on clause 7 but Dr. Clark went through the second section which had 25 paragraphs. He indicated that he was only going to speak about a few but he spoke about every one but three.

The VICE-CHAIRMAN: What they are trying to do is to hit the highlights on things that may appear to be important to you. Let us try it for a little while longer and see how we get along.

The WITNESS: I am just about through, as far as I am concerned, and I presume you will then want to go ahead with questions.

The VICE-CHAIRMAN: Mr. Benidickson, ask your question if you wish.

Mr. BENIDICKSON: I have not a question on that section.

The VICE-CHAIRMAN: Have you finished, Mr. Bryce?

The WITNESS: One thing I might add is that in this subsection, paragraph (d)(i) we have made specific reference, for the first time that I know of in legislation, authorizing payment to persons in the public service of compensation or other rewards for inventions or practical suggestions for improvements.

Mr. Knowles spoke about this matter in the House at some length, and from our point of view quite helpfully, in giving information on it. I might say we have been making some study of suggestion plans, but we do not have regulations drafted or anything of that sort yet. It is a subject which is here recognized for the first time in statutory form, and we are, as far as

the indications the minister has given me are concerned, informed that it would be his intention to bring forward to the Treasury Board, if and when the Act is put through in this form, certain regulations on the subject.

Mr. HARKNESS: Was that not recognized in the National Defence bill which we passed last year?

The WITNESS: It may have been, sir, in regard to members of the forces.

Mr. HARKNESS: Mr. Campney will recall it. I believe there was a similar clause put in regarding payment for inventions and so forth to service personnel.

Mr. CAMPNEY: That is right.

The VICE-CHAIRMAN: Have you anything more Mr. Bryce? If not, let us hear from Mr. McIntyre?

Mr. B. G. MCINTYRE (*Comptroller of Treasury*): I do not know there is very much I can add. Dr. Clark has covered the parts of the Act that are of direct concern to my office pretty thoroughly, and has, as a matter of fact, stolen most of my thunder.

The part that deals particularly with the office of the Comptroller of the Treasury, his duties and responsibilities, is Part III, public disbursements, embracing Sections 24 to 40. They cover all the ground of commitment control, control over payments to people within the limits of appropriations, and general requirements with respect to economy. As Dr. Clark stated, they are substantially the same as contained in the present Act. There are a few new sections and subsections which have been added to this part principally to confirm by legislation what has in practice been followed for a great many years. You will find the same type of introduction that has a bearing on my office in the public monies section, Section 19 I think it is, which is new, and really serves exactly the same purpose—to confirm by statute what has been followed in practice for a great many years.

We have an organization of a central office, and branch offices located with the various departments to provide the required service, not only in Ottawa but across Canada and outside Canada. We have one office in London and one office in New York. That briefly is our organization. It is built to give departments what we feel is the best direct service they can receive from us. It is therefore necessary that the staff be located in close proximity to the offices of the department they are required to serve.

I do not think I have anything more than that.

The VICE-CHAIRMAN: Thank you, Mr. McIntyre. We could now hear from Mr. Balls.

Mr. SINCLAIR: Mr. Balls has been in both the Auditor General's department and the Finance Department—he is now in the Finance Department but I think as we have the Auditor General that he could speak on the sections referring to him and we could relieve him of waiting in attendance here.

Watson Sellar, Auditor-General, called:

The WITNESS: Well, Mr. Chairman, there are no material changes in the audit section that have been made except at my suggestion. Earlier, Dr. Clark referred to the fact that I was no longer required to keep record of the redeemed cheques. I suggested the deletion of that because it was a duplication of work and a cost to the taxpayer which I did not think was necessary. I have already told you about the pre-audit thing, and on Part VII there is only one section—and I mentioned it to Mr. Macdonnell the other day and in fairness to other members I should point it out to them now. I was very anxious that subsection 3 of Section 65 should in due course be given an elastic interpretation.

It reads: "The provisions of the Civil Service Superannuation Act, except those relating to tenure of office, apply to the Auditor General."

In subsection (1) above, the retirement age is fixed at 65. Under the Civil Service Superannuation Act a civil servant can get out at 60 and I do not ~~not~~ want to stay until 65. I claim that the Civil Service Superannuation Act applies but the Act reads that I cannot stay after 65. I hope I am right, sir. That is the only change.

The VICE CHAIRMAN: It is a new kind of argument to present to us but we are willing to listen.

The WITNESS: I do not think there are any material changes here whatsoever. I would be very glad to answer questions that you may wish to put to me.

I argued against Section 74 being continued as we never use the Inquiries Act—we never have. It has been there since the start and it is still there.

Section 75 is brand new. That was also suggested by me because I did not think that I should audit my own accounts and I suggested someone else should do it. We copied the English practice in that regard and, as far as I am concerned, that section is quite workable—as far as the audit office is concerned.

Mr. SINCLAIR: As far as Section 74 is concerned, it does not limit you—but in case you wanted the power—

The WITNESS: We never used it—never—that was used as an argument to introduce Part I of the Inquiries Act. The Auditor General was given it years ago. We had a very high class Auditor General named Mr. MacDougall who got into a conflict in the 1890's and the government gave him the power to inquiries. Later on they extended it to all others on the ground that he had it and all ministers had it. Actually, it is never used. If you wanted to kill off some dead lumber you could cut it out.

The VICE CHAIRMAN: But it does not take up much paper. Incidentally, when you refer to high class auditors, we do not think that Sellar is bad either.

Mr. SINCLAIR: I do not think that Mr. Sellar wants to remain in attendance—

The WITNESS: If you have no objection I will hang around because I am interested in this Act.

The VICE CHAIRMAN: He said the changes were made at his suggestion, so the committee has that information.

Mr. HARKNESS: What is the meaning of Section 68 and these words: ". . . make such examination of the accounts and records of each registrar . . ." what registrars are they?

The WITNESS: That is the registrar of the public debt. You have the registrar with the Bank of Canada, with the Bank of Montreal in New York, with the Bank of Montreal in London, England. They are registrars of the public debt. It is provided under that section that we shall audit those accounts.

Mr. MACDONNELL: Is the word "registrar" defined anywhere in the Act?

The VICE CHAIRMAN: Yes, at the bottom of page 2.

The WITNESS: And in the debt section it is repeated again.

The VICE CHAIRMAN: We have now had a quick résumé of the bill.

The WITNESS: Pardon me if I just add to that answer. If you look at Section 47, Mr. Macdonnell, you will see that the Governor in Council may appoint one or more registrars—

The VICE CHAIRMAN: Well, you sit right here, Mr. Sellar, we might need you.

Mr. BENIDICKSON: Before Mr. Sellar leaves—he is quite independent. We have the department officials and other witnesses here who are associated with the Department of Finance, but I appreciate Mr. Sellar's original statement that we are in this position. This is a bill advanced by the Minister of Finance and I do not think we should ask Mr. Sellar to say whether the provisions are good or bad—the provisions that do not relate to his own work—but he is familiar with the Act.

Everyone who has spoken to us so far has said in summary that this bill is pretty well just bringing into statute form practices that have been carried on for some time. Now, with respect to the sections that we have had explained to us up to now, are there any notable exceptions in that they have not been just because of giving legislative authority to past practices?

Mr. SINCLAIR: Surely that is the very point I first brought up.

Mr. BENIDICKSON: I am not asking if it is a good or bad thing, but he knows the Act and he does not come from the Department of Finance. I am simply asking what sections in it are not just giving legislative authority to present practices.

The WITNESS: I would have to go through them section by section before I could give you an honest answer.

Mr. BENEDICKSON: You will be here?

The WITNESS: The way I look at it is this. Let me illustrate where I might be of some use to you, because I want to be of help. When you come to a section which Dr. Clark did not refer to, and quite properly did not refer to, where there was no change, and where it is a section which says estimates submitted shall be for the year—and that has been in for a long time—in view of the discussions before this committee, I would like to suggest that you consider adding “and that they shall be presented in such form as the House of Commons may from time to time direct.” After all, the Governor in Council is the suppliant for money and the House has some say in what form estimates should be submitted. I am not suggesting any change except that you could just add language to dictate the form of the estimates.

The VICE-CHAIRMAN: To assert our authority?

The WITNESS: That is all.

The VICE-CHAIRMAN: We will get it just the way the government wants to give it to us.

Mr. SINCLAIR: Mr. Croll, that is not either fair or right. When this committee sat a year ago one of the many good jobs it did was to change the form of the estimates to give more detailed information to members and also to have the sheet at the back giving a functional breakdown of the estimates.

The VICE-CHAIRMAN: Don't get too serious.

Mr. SINCLAIR: That is all right for you to say that but the record does not show that big smile on your face.

The VICE-CHAIRMAN: You can point to it.

May I suggest, gentlemen, that we now have a better idea of what this bill is all about.

Mr. BENEDICKSON: I will repeat my question later on, after I have some idea.

The VICE-CHAIRMAN: Well, let us start with section one and see how far we can get. I will call Section 1.

Carried.

Section 2.

2. In this Act

- (a) "appropriate Minister" means
- (i) with respect to a department mentioned in subparagraph (i) of paragraph (f), the Minister presiding over the department,
 - (ii) with respect to any other department, the Minister designated by the Governor in Council as the appropriate Minister,
 - (iii) with respect to the Senate and the House of Commons the respective Speaker, and with respect to the Library of Parliament the Speakers of the Senate and the House of Commons, and
 - (iv) with respect to a corporation to which Part VIII applies, the Minister designated by the Governor in Council as the appropriate Minister;
- (b) "appropriation" means any authority of Parliament to pay money out of the Consolidated Revenue Fund;
- (c) "authorized agent" means any person authorized by the Minister to accept subscriptions for or make sales of securities;
- (d) "Comptroller" means the Comptroller of the Treasury appointed under this Act;
- (e) "Consolidated Revenue Fund" means the aggregate of all public moneys that are on deposit at the credit of the Receiver General;
- (f) "department" means
- (i) any of the departments named in Schedule A,
 - (ii) any other division or branch of the public service of Canada, including a commission appointed under the *Inquiries Act*, designated by the Governor in Council as a department for the purposes of this Act,
 - (iii) the staffs of the Senate, the House of Commons and the Library of Parliament, and
 - (iv) any corporation named in Schedule B;
- (g) "fiscal agent" means the Bank of Canada and a fiscal agent appointed under Part IV;
- (h) "fiscal year" means the period from the first day of April in one year to the thirty-first day of March in the next year;
- (i) "Minister" means the Minister of Finance and Receiver General;
- (j) "money" includes negotiable instruments;
- (k) "money paid to Canada for a special purpose" includes all money that is paid to a public officer under or pursuant to a statute, trust, treaty, undertaking, or contract, and is to be disbursed for a purpose specified in or pursuant to such statute, trust, treaty, undertaking or contract;
- (l) "negotiable instrument" includes any cheque, draft, traveller's cheque, bill of exchange, postal note, money order, postal remittance and any other similar instrument;
- (m) "public money" means all money belonging to Canada received or collected by the Receiver General or any other public officer in his official capacity or any person authorized to receive or collect such money, and includes
- (i) duties and revenues of Canada,
 - (ii) money borrowed by Canada or received through the issue or sale of securities,
 - (iii) money received or collected for or on behalf of Canada, and
 - (iv) money paid to Canada for a special purpose;

- (n) "public officer" includes a Minister and any person employed in the public service of Canada;
- (o) "registrar" means the Bank of Canada and a registrar appointed under Part IV;
- (p) "securities" means securities of Canada and includes bonds, notes, deposit certificates, non-interest bearing certificates, debentures, treasury bills, treasury notes and any other security representing part of the public debt of Canada.

Mr. MACDONNELL: I have a question on 2 (k): "Money paid to Canada for a special purpose". I suppose there is a case where money could be paid to Canada, such as by a foreign government purchasing munitions in this country, or anything of that kind, where the money would just go like, other money into the consolidated revenue fund, or is it conceivable that you might have a separate fund for moneys which were in no sense that of this government?

Mr. CLARK: If there was a contract or, let us say an agreement, under which that money would be paid to us to be used for the purchase of defence equipment for a foreign government, I think it would be money paid to Canada for a special purpose. It would be public money in that sense and it would go into the consolidated revenue fund but it could be disbursed for the specific purpose without further appropriation by parliament.

Mr. MACDONNELL: That seems to be good sense, but I am just wondering if we would get tangled up with anything which we did not expect once it got in there?

The VICE-CHAIRMAN: Are you clear there, Mr. Macdonnell?

Mr. BRYCE: Refer to Section 20 on page 7.

Mr. CLARK: "Money received by or on behalf of His Majesty for a special purpose and paid into the consolidated revenue fund may be paid out of the consolidated revenue fund for that purpose, subject to the provisions of any statute applicable thereto."

Mr. MACDONNELL: What are you reading?

Mr. CLARK: Section 20, page 7, subsection (1).

Mr. MACDONNELL: "Subject to the provisions of any statute applicable thereto."

Mr. CLARK: That relates to this kind of thing—say the Unemployment Insurance Fund or perhaps the Old Age Pensions Fund, which are covered by parliamentary statute. Moneys would be put into these funds and used for purposes specified. In the case you mentioned there would be a sort of contract or agreement between the foreign government and ourselves for the use of that money for certain purposes. There would not be any other expenditure out of it; it would be according to that contract or agreement with the foreign government and not according to any other statute.

Mr. MACDONNELL: I do not think there would be anything in it in substance, but there is just this one question. If it was a private business you would establish a separate trust fund and those moneys coming in and going out would not enter into your own business. You consider it convenient that the money go into the consolidated revenue fund and you see no difficulty in getting it out?

Mr. CLARK: No.

Mr. WRIGHT: I wanted to ask if included in that definition of 'public money' would be the surplus of Crown corporations? It seems to me that Crown corporations that have surplus funds have public money which would go into the consolidated revenue fund.

Mr. CLARK: It would not be public money. I am thinking of the proprietary or agency corporations—until the Corporation profit or surplus was turned over to the government it would not be public money.

I would think public money means all money belonging to Canada received or collected by the Receiver General or any other public officer in his official capacity or any person authorized to receive or collect such money—that is (m) of Section 2 and, down below you have “public officer” which includes a minister and any person employed in the public service of Canada.

Your question, Mr. Wright, would relate to who are included amongst “public officers”.

Mr. WRIGHT: Yes.

Mr. CLARK: I would think clearly that in the case of proprietary Crown corporations like say the Canadian National Railways—

Mr. WRIGHT: Or the Polymer Corporation?

Mr. CLARK: They would not be in the public service of Canada, so the money would not be public money. I think that would be true of practically all agency corporations although there may be one or two where the governing Act specifically states that the officers of the Corporation are public officers.

Mr. MACDONNELL: Does not Section 81, subsections (2) and (3) deal with that?

Mr. SINCLAIR: It is still in the name of the corporation—“to the credit of a special account—in the name of the corporation”.

Mr. WRIGHT: I raised the question because it seems to me that earnings of Crown corporations should be public money and should be paid into the consolidated revenue fund.

Mr. MACDONNELL: What about subsection 3?

Mr. SINCLAIR: Subsection (3) covers it.

The VICE-CHAIRMAN: It would be subject to the Act in each specific case. If the Act provided it it would be public money.

Mr. WRIGHT: I think it should be in the definition.

Mr. MACDONNELL: Look at 81(3) and see if it is covered?

Mr. GIBSON: Where does the King's Printer get the right to accept payment in his own name? Is that under his own Act? You can make a cheque out to the King's Printer—

Mr. CLARK: Where does he get the right?

Mr. GIBSON: Yes—rather than the Receiver General?

Mr. CLARK: Under the Public Printing and Stationery Act, I would think.

Mr. MCINTYRE: It must be deposited to the credit of the Receiver General.

Mr. CAMPNEY: What would be an example of non-public moneys which the government might receive? I cannot visualize it. We are saying what public money is, as receiving by the Department of Finance—but what other moneys might be received which might be non-public moneys?

Mr. CLARK: I would say one example would be what Mr. Wright was speaking about a moment ago—passenger fares collected by the Canadian National Railways are not public moneys, although they are moneys in the hands of a Crown corporation.

Mr. CAMPNEY: But they are not received by the government of Canada; they are collected and held by the government of Canada.

Mr. SINCLAIR: Deposit cheques on contracts?

Mr. CLARK: Yes, payments made by an estate, and I think also payments in excess of an amount of a fee levied against a man would not be public money.

(Mr. Picard resumed the chair.)

Mr. CAMPNEY: Would that not be put in the consolidated revenue fund?

Mr. CLARK: No, the extra amount would be passed back.

Mr. CAMPNEY: In the meantime where would it be? In the consolidated revenue fund?

Mr. FRASER: Tied up in red tape.

Mr. CLARK: It would be deposited to the credit of the Receiver General but not public money.

Mr. FULFORD: Crown assets receipts from disposals go into the consolidated revenue account?

Mr. CLARK: Yes, receipts are transferred into the consolidated revenue account.

Mr. FULFORD: It seems a very loose way of accounting. Crown assets might sell something for \$1 million that cost the department \$10 million a few years before.

Mr. FULFORD: It is a loose way of keeping track of losses.

Mr. SINCLAIR: They are not necessarily losses. For instance, in military stores, when an aircraft is obsolete it is obsolete and all you are doing is carrying out salvage operations which you in your own business do on stock that is no longer useful. You cannot talk of a loss for things turned over to crown assets, because then it is only a matter of salvaging what you can. My understanding of section 81 is that it authorizes payments to be made out of surplus of these companies. All these companies must keep some surplus the same way as any other company keeps a surplus in hand, and just the same as the surplus of an ordinary company is paid out to stockholders there is provision in section 81 (2) and (3) to pay this money back to the people of Canada on approval of the Minister of Finance and the appropriate minister.

Mr. NOWLAN: Mr. Chairman, I think at this point maybe the Auditor General would have a word of explanation just as to what Mr. Fulford inquired about.

Mr. SELLAR (*Auditor General*): Mr. Fulford's question was with regard to War Assets. The law stipulates that the company shall turn over to the Receiver General at the end of each month the proceeds of sales which are made during the month, less the commissions which they are authorized to retain, which currently is 10 per cent. They are entitled to 10 per cent for their services. They now have a surplus arising out of that 10 per cent because their costs are not 10 per cent; for instance, if they made a sale of a million dollars they would have to turn over \$900,000 at the end of the month to the Receiver General and then it goes into the consolidated revenue fund. It does not cost the corporation \$100,000 for administrative purposes. In their report this year they say that it costs around 3 per cent. Notwithstanding that they collect 10 per cent, but that is due to a special reason this year, it is because of the sale of ships. A good example is the estate of a deceased serviceman, or the proceeds from Canadians which are received by the Commander in Chief, who has prerogative powers which are not part of those of the civil powers, and those are, by the National Defence Act, described as non-public moneys. Proceeds from sale of garbage is another one that goes to the credit of the welfare activities.

Mr. MACDONNELL: Are we satisfied on that point? I call attention to section 24, which says that:

Subject to the British North America Acts, 1867 to 1951, no payments shall be made out of the consolidated revenue fund without the authority of parliament.

It seems to me that Mr. Sinclair, in particular, brought up or made reference to funds which can get into the public accounts, namely, deposits by contractors.

Mr. SINCLAIR: They are not public moneys, so they are not in the consolidated revenue fund.

Mr. MACDONNELL: Wait a minute, they are paid to Canada for a special purpose.

The CHAIRMAN: Would they be in the consolidated revenue fund?

Mr. FLEMING: It seems to me you would have difficulty keeping them out of it, however.

The CHAIRMAN: Perhaps Mr. Henry would advise us on that.

Mr. HENRY: Deposits by contractors are covered by a special section of the Act, section 19. Another example, perhaps, of a general kind, is general purpose moneys, referred to a moment ago. Whenever you find in this Act that certain expenditure can be made, that is a general appropriation as if it was in another Act, so you have got the authority of parliament. What the section means, section 24 where it says no payments shall be made without the authority of parliament relates to other expenditures which are not already covered.

Mr. HARKNESS: In section 2 (f), where "department" is defined for purposes of this Act, it appears to me that any part of the public service at all can be declared a department for the purpose of this Act. To what extent is that used, or how many of these departments do we have?

Mr. BALLS: The first part of our definition of "department" represents those departments which have been formally established by statute and over which a designated minister has been named to preside.

Mr. HARKNESS: My question does not refer to that.

Mr. BALLS: No, quite, but in addition to that there are a number of other bodies which have all the attributes of departments but there are no designated ministers, and this is a device which we have introduced to bring into the scope of the operation of this Act, first of all, the operations of these bodies and, also, if you will notice under our provision 2 (a), we provide for the designation of a minister with respect to these other bodies. Now, the sort of organization that we have in mind would be, for instance, the Public Archives, the Privy Council. There are quite a few other bodies of that nature which are not formally established by statute and which it will be necessary for the Governor in Council to designate as departments for the purpose of this Act, and, secondly, to designate a minister as presiding over them. That is the reason for the definition in the way it is in that part (ii) of (f).

Mr. HARKNESS: Does not part (iv) read "department" means any corporation named in Schedule B? Now, Schedule B does not contain any corporations. Corporations are all in Schedules C and D.

Mr. BALLS: Schedule B lists, as designated in the bill, departmental corporations, and you will note in section 76 of Part VIII that a "departmental corporation" means a crown corporation named in Schedule B, and, furthermore, in section 78 (2), this Part does not apply to departmental Corporations, that is, those in Schedule B, except as provided in section 76, which is achieved to bring them under the operation of the Act. In other words, those corporations in Schedule B fall under the general provisions of sections 1, 2 and 3, and so on.

Mr. HARKNESS: Those corporations named in Schedules C and D do not fall in there?

Mr. BALLS: B and D fall under Part VIII.

Mr. BENIDICKSON: Inasmuch as there is nothing to the contrary on the page of explanations, I take it that the staffs of the Senate and the House of Commons and the Library of Parliament have always been considered as a department in relation to these sections.

Mr. BALLS: Yes.

The CHAIRMAN: Shall we go on now to Part I, Organization, Treasury Board?

3. (1) There shall be a board to be called the Treasury Board, consisting of the Minister of Finance, who is the Chairman, and any five members of the King's Privy Council for Canada, who may be nominated from time to time by the Governor in Council.

(2) The Governor in Council may nominate such additional members of the King's Privy Council for Canada as he sees fit to be alternates to serve in the place of members of the Board.

(3) Subject to the terms of this Act and any directions of the Governor in Council, the Treasury Board may determine its own rules and methods of procedure.

4. The Minister may designate an officer of the Department of Finance to be Secretary of the Treasury Board, and shall from among the persons employed in the Department of Finance provide the Board with such other employees as are necessary for the proper conduct of the business of the Board.

5. (1) The Treasury Board shall act as a committee of the King's Privy Council for Canada on all matters relating to finance, revenues, estimates, expenditures and financial commitments, accounts, establishments, the terms and conditions of employment of persons in the public service, and general administrative policy in the public service referred to the Board by the Governor in Council or on which the Board considers it desirable to report to the Governor in Council, or on which the Board considers it necessary to act under powers conferred by this or any other Act.

(2) The Governor in Council may authorize the Treasury Board to exercise all or any of the powers, other than powers of appointment, of the Governor in Council under the *Civil Service Act*, the *Civil Service Superannuation Act*, the *Defence Services Pension Act*, and Parts II to VI of the *Royal Canadian Mounted Police Act*.

(3) The Treasury Board may prescribe from time to time the manner and form in which the accounts of Canada and the accounts of the several departments shall be kept, and may direct any person receiving, managing or disbursing public money to keep any books, records or accounts that the Board considers necessary.

(4) The Treasury Board in the exercise of its powers under this or any other statute is subject to any direction given to it by the Governor in Council, and the Governor in Council may by Order amend or revoke any action of the Board.

6. The Treasury Board may require from any public officer or any agent of His Majesty any account, return, statement, document, report or information that the Board considers necessary for the due performance of its duties.

7. The Treasury Board may make regulations

- (a) respecting the collection, management and administration of, and the accounting for, public money;
- (b) respecting the keeping of records of property of His Majesty;
- (c) subject to any other Act, prescribing rates of compensation, hours of work and other conditions of employment of persons in the public service;

- (d) notwithstanding the *Civil Service Act*,
 - (i) authorizing the payment to persons in the public service of compensation or other rewards for inventions or practical suggestions for improvements,
 - (ii) governing payments to persons in the public service by way of re-imbursement for travelling or other expenses and allowances to meet special expenses arising out of their duties; and
- (e) subject to any other Act, for any other purpose necessary for the efficient administration of the public service.

Mr. MACDONNELL: I do not want to ask a lot of details, but might we have an idea as to who are the Treasury Board and its work. I notice it says in 3(3) "Subject to the terms of this Act and any directions of the Governor in Council, the Treasury Board may determine its own rules and methods of procedure."

The CHAIRMAN: We will ask the secretary of the Treasury Board to answer that question.

Mr. MACDONNELL: I notice someone spoke of the provision for the rotation of ministers.

The CHAIRMAN: Alternates.

Mr. MACDONNELL: Yes, but I am anxious to know just how many alternates there are, because I thought, quite candidly, that unless a man was able to attend with some regularity, he might not be as useful as he would otherwise be, and I speak with deference on a subject of this kind.

Mr. BRYCE: I do not know what details you would like me to give you.

Mr. MACDONNELL: What is a quorum? How many ministers form a quorum?

Mr. BRYCE: Three members of the board constitute a quorum. This is provided in the latest order in council establishing the board.

Mr. MACDONNELL: Is that three out of the five?

Mr. BRYCE: No, three out of the six. The ministers who are regular members in addition to the Minister of Finance are the Minister of Agriculture, the Minister of Public Works, the Minister of National Revenue, the Minister of Labour, and the Minister of Justice.

Mr. MACDONNELL: Does the Comptroller of the Treasury have to be there?

Mr. BRYCE: No, sir.

Mr. MACDONNELL: Is he there?

Mr. BRYCE: No, not normally. These ministers are the formal members, and in addition there are five others named as alternate or substitute members. Normally, what happens is, each week when I call a meeting of the board I try and arrange with the Minister of Finance the time that will be suitable, and that is often quite a difficult thing to do—I have to reconcile it with the cabinet, with different cabinet committees and the business of the House, and I will then normally notify the regular members. If I do not find that the regular members will be able to attend, I then call on substitute members to notify them, and what happens is they will meet at the hour designated. There will normally be anywhere from 3 to 6 ministers present, depending on circumstances, and myself as secretary, and probably Mr. Taylor, at least during the period when we are considering matters relating to salaries and related subjects. They meet with a very large agenda of items which have been prepared by our staff in advance so that they can consider the subjects as fully and yet as quickly as possible, and they go through the various matters and I record decisions notify the staff of the decisions and they prepare the various minutes.

Mr. MACDONNELL: There must be a very good answer to this question I am going to ask: can someone tell me why the Comptroller of the Treasury is not at those meetings of the Treasury Board? It seems like having a meeting of the directors without the general manager, which would never be allowed in a private concern.

Mr. BRYCE: The comptroller is bound by the minutes of the board in regard to expenditures that are authorized, but he works entirely from the minutes of the decisions of the board.

Mr. MAJOR: Mr. Bryce, you said in your report previously that the ministers do not have time to read your minutes right through. How do they get around that?

Mr. BRYCE: I was speaking of the minutes that were sent up to the Governor in Council for approval.

Mr. BENIDICKSON: How many of that type were there in 1950?

Mr. BRYCE: Going up to the Governor in Council for approval?

Mr. BENIDICKSON: Yes.

Mr. BRYCE: I would say normally there would be anywhere from 100 to 250 a week, which would run a good many thousand a year.

Mr. FULFORD: They would be more in the form of vouchers, would they not?

Mr. BRYCE: No, they would be anything from authorizing the Department of Agriculture to hire an additional 20 persons to staff a new laboratory at London, to an order authorizing the remission of customs duties on an article being brought into Canada for temporary use, to be sent back out of Canada again. There are a variety of routine transactions, some of which are quite large and important and some more or less trivial but which by statute must be authorized by the Governor in Council.

Mr. BENIDICKSON: Every month the Clerk of the Privy Council submits a list of orders in council to some official in the House of Commons and on those that I have looked up, I find that instead of having a P.C. number they have a T.B. number so-and-so. Now, if they are no longer things that go to the Privy Council and they are called orders in council, are they going to be items that will not be referred to in the monthly report to the House of Commons?

Mr. BRYCE: I am sorry, sir, I should be able to answer that, but I am afraid I cannot. I have understood that there was a convention now whereby they did not notify the House of Commons of all the Treasury Board minutes, because the House did not wish to be bothered with those thousands and thousands of internal administrative items. The Regulations Act does not require their publication.

Mr. ASHBOURNE: The Minister of Finance and the other five ministers are the members who make up the Treasury Board. Who are the alternates? Is there a panel?

Mr. BRYCE: There is a panel, sir: the Minister of National Defence, Minister of Transport, Minister of Fisheries, Minister of Veterans Affairs, and Minister of Citizenship and Immigration.

Mr. ASHBOURNE: When one of the regular ministers is away, does another take his place?

Mr. BRYCE: No, the system is simple.

Mr. ASHBOURNE: By rotation?

Mr. BRYCE: No, our office calls them, normally, in a certain order till we get enough acceptances.

Mr. ASHBOURNE: Who acts as chairman if the Minister of Finance is not present?

Mr. BRYCE: Normally the Minister of National Revenue, but there is no legal requirement that that be so, it is only a matter of custom.

Mr. BENIDICKSON: We can appreciate that cabinet council is not likely to have time to look at 10,000 of these documents at their sittings. Is there much more likelihood that a group of five cabinet ministers is going to scrutinize these Treasury Board minutes? Are they read to them?

Mr. BRYCE: They are all put before them. They are summarized in large loose leaf notebooks. Now, what happens is that they will go there and ask me whether this one is purely routine, conforming to their previous decisions, policies, and such, and I will inform them whether or not that is the case, and they will decide what ones are worthy of their attention. This is the only practical way.

Mr. HARKNESS: In other words, you do most of the work of the Treasury Board.

Mr. BRYCE: By no means, sir. The job of the secretary, I think it is only fair to say, is essentially one of scanning to see what things do conform with the policies and directives of the Board, and what things do not, and those which do not are then drawn to the attention of the board.

Mr. WRIGHT: Is there any written regulation which governs you in your screening?

Mr. BRYCE: There may be hosts of regulations and practices. The things that fall easily within the regulations normally do not come to the board, but there will be statements of policy that we have informed the departments of from time to time by letter, and of course in screening other items to see what needs attention of the board we have regard to those. This screening work requires a staff of twenty officers. I would not pretend that I do it all myself. I cannot read those thousands of documents.

Mr. WRIGHT: I realize the complexity of the thing but it is not only yourself; it is twenty other officials, and you must have some regulations in governing them when making their decisions on recommendations to you and from you to the Treasury Board?

Mr. BRYCE: Unfortunately things that come to the board are usually things that do not fit the ordinary regulations. So often it is not a thing you can lay down in regulations.

For example, the law requires that every retirement on pension has to be approved by the Treasury Board and then the Governor in Council. Now, obviously, 98 per cent or 99 per cent of those are completely routine. The circumstances fit exactly within the intention of the Act and all that is necessary is that some officer on our staff ensures that in fact everything is in order, that there is no question that should be raised regarding this case. Consequently, such cases are put through as routine, and in practice it is necessary that I accept the assurance of the officers working for me that in fact it is a routine case.

Now what happens is, of course, that most of these cases have already been worked over by the department concerned and by our superannuation branch. So, we get some of the screening process through seeing whether the Department of Finance agrees with the department concerned. The ones which engage my attention are nearly always those where the Department of Finance and the department concerned did not agree.

Mr. FULFORD: There is quite a large backlog in those cases, a backlog on pension cheques and cheques for amounts paid into the pension fund where a man is retired from service?

Mr. BRYCE: We try very hard not to create the backlog at the Treasury Board end.

Mr. FULFORD: I think it is remarkable that you get through them as quickly as you do.

Mr. ASHBOURNE: I presume that Mr. Bryce is the full time secretary of the Treasury Board? And also assistant deputy minister of Finance?

The CHAIRMAN: That is right.

Are there any other questions on paragraphs 3 to 7? Then, we will go on to the Department of Finance.

Mr. MACDONNELL: We are not up to that yet.

The CHAIRMAN: I said that we would go over them all together—from 3 to 7—so you are entitled to ask any questions you wish to ask.

Mr. MACDONNELL: I noticed when the deputy minister of Finance was going over number 5 he pointed out that there were some new phrases there. He mentioned particularly estimates and financial commitments, and I was not sure that I fully understood the significance of what he had in mind. I would like to hear just a little further about how exactly the Treasury Board does deal with estimates and financial commitments of the various departments when they come before them.

This, I take it, is a general reference to the preparation of the budget?

Mr. BRYCE: First, may I make it clear that this subsection is giving general terms of reference to the board. This particular section does not give any executive authority to the board and what we have tried to do is to extend the words that were in the old Act to bring in these terms, "estimates and financial commitments, establishments, the terms and conditions of employment, and general administrative policy..." to make clearer that it is that sort of field with which it is concerned.

In regard to the way in which the board deals with estimates, I think the Minister of Finance has mentioned from time to time in the House that it is relatively straightforward. The Minister of Finance writes to each of the other ministers, normally in November of each year, and asks them to submit their estimates to the Treasury Board for consideration—estimates for the following year. Those come in. They are then examined by our staff at some length. They are put together in a comparable, similar form, so that they can be gone over relatively quickly by the board with here and there an occasional comment from the Department of Finance's point of view.

In some cases the minister concerned will ask that the Department of Finance discuss the estimates for a particular department or a particular item before he submits them, and we will do that on occasion—so they will know the views of the Department of Finance or the Minister of Finance before they recommend them.

In the normal, routine cases, they simply come in and we go over them and we are in a position then to draw any particular notable point to the attention of the board. Then the board will have perhaps a dozen or two dozen meetings in which they will go through the estimates in quite considerable detail. They are then sent on to cabinet for final approval.

Mr. SINCLAIR: The minister of each department, his deputy, and his top people are brought in at the final meeting.

Mr. BRYCE: I should say when the Board goes over the estimates, the minister of the department concerned will confer with his deputy minister and senior officials—to answer questions and justify the estimates that he has submitted.

Mr. MACDONNELL: In what I am going to say I am not emphasizing any disrespect to yourself or to any minister but is it not a fact that, inevitable, with these busy men, and when we are talking about "the Treasury Board doing this", you and whatever staff you have pass these things up to the

Minister of Finance or other ministers from time to time. However, if I know anything about the way people work this surely comes back to the Finance Department and it raises a question in my mind, if that is so, and if that is a fair statement, then just what staff in the Department of Finance is taking the responsibility for this? When we talk about the Treasury Board, we are now going to allow the Treasury Board to take over an enormous number of things done by the cabinet. That seems to me to be quite good sense, but when we talk about the Treasury Board examining estimates and financial commitments, again, how real is that?

Mr. BRYCE: Well, from my experience I can say that on questions of real importance and substance there will be very thorough consideration by the minister. For example, when a new service is being introduced, and, just to go back to a recent example—we entered into forestry agreements with the provinces during the past year; and there were supplementary estimates introduced into parliament last June to provide for them. Those are the kind of things that would be discussed at some length between the ministers beforehand. Matters of real importance are by no means settled between officials.

Mr. MACDONNELL: What people, experts, and officials who have special knowledge of these things under discussion, would be present?

Mr. BRYCE: On the main estimates the important officials will be present with the minister. However, it depends on the minister. Some ministers prefer handling it themselves; others prefer to have one or two officials; and others prefer to have a good number of specialized officials. It is a matter for the minister concerned to decide what sort of support he should have.

Mr. MACDONNELL: Would you not agree that a clause should be put in here that departmental officials should be authorized to say what they can have and let them worry about what they are going to do with it. That is about the only way you will get economy.

Mr. SINCLAIR: That is about the way they do it. These are not professional witnesses, they are hard working officers of the finance department.

Mr. ASHBOURNE: Is it the general practice that the cabinet set a ceiling on certain amounts?

Mr. BRYCE: When the estimates are being considered—and I cannot speak with more than five or six years experience in this matter—but my general experience has been that the board has to work within a general policy that the cabinet has decided upon. Whether the particular figures are decided upon and then you fit into that is a matter that I am not certain I should speak on. I think it would probably be more appropriate for the minister to speak, but certainly the board is normally working within the pattern of policy laid down by cabinet.

Mr. ASHBOURNE: Then afterwards they all go back before cabinet again?

Mr. BRYCE: Normally, the board requests that any expenditures involving changes in policy or new policies should first be considered as policy questions by the cabinet before the board considers approval for them.

One has got to preserve a sense of proportion on that because, if you are making some small change in the nature of a service to be carried on by the wild life division of the Department of Resources and Development, it may not merit the attention of the whole cabinet—and the board will deal with the minor item in the estimates of \$5,000 or \$10,000 to provide for that; but on anything of real substance they will request that the cabinet clear the policy before going into it.

Mr. MACDONNELL: Then there is one other phrase here:

"The Treasury Board shall act as a committee . . . on all matters relating to . . . 'the terms and conditions of employment of persons in the public service'."

How far-reaching are those words?

Mr. BRYCE: 'Terms and conditions of employment'?

Mr. MACDONNELL: Yes.

Mr. HARKNESS: What section is that?

The CHAIRMAN: Section 5, page 3.

Mr. BRYCE: Yes, line 27 or 28. Well, sir, they will cover such things as leave—the amount and nature of leave to be provided; holidays; allowances that may be paid under various circumstances to persons in the public service—

Mr. SINCLAIR: Hours of work.

Mr. BRYCE: All those things with which the government is concerned as an employer.

Mr. MACDONNELL: Why does the Treasury Board concern itself with such a broad feature as "general administrative policy in the public service."

Mr. BRYCE: Well I agree that sounds very broad but it refers to, really, where perhaps we might wish to tell a department that by and large they should avoid the use of long distance telephone and instead use air mail or telegrams—or something of that sort. This may seem like a trifling example but it is that sort of thing. It might relate to the way in which they will handle publications and things of that sort which do not quite fit into the categories above; but they are administrative rather than regulatory functions.

Mr. HARKNESS: In this section, the last three or four lines include really three ways in which you can work.

First, some matter may be referred to the board by the Governor in Council presumably for settlement by the board; secondly, the board may report to the Governor in Council on some matter if they want direction and which they think the Governor in Council should settle; and thirdly, you might just decide on other matters, settle them yourself—in regard to any of the things listed above?

Mr. BRYCE: If the board has authority.

Mr. HARKNESS: You have got the three procedures, you might say.

Mr. BRYCE: Yes, but that paragraph does not confer powers for the board to act itself. The powers for the board to act on things are conferred in other statutes or other sections of this Act.

Mr. HARKNESS: It says ". . . on which the board considers it necessary to act. . .". In other words, you make up your own mind as to whether it is a matter you are empowered to act on?

Mr. BRYCE: Yes.

Mr. HARKNESS: There is no check on you from that point of view?

Mr. BRYCE: No.

Mr. HARKNESS: Would it be correct, as a general statement having regard to paragraph 5 and also to a number of paragraphs that Dr. Clark commented on when he was going over the thing before, to say that in so far as the Treasury Board is concerned this Act is designed to considerably increase its powers?

Mr. BRYCE: I would hesitate a little at your word "considerably"—because the board already deals with a good many of these items.

Mr. HARKNESS: If we leave out the word "considerable" and say that the general purpose of the Act as far as the Treasury Board is concerned is to increase its powers, would that be right?

Mr. BRYCE: Yes, it will increase its powers, or clarify its powers.

Mr. SINCLAIR: And transfer certain things now done by the Governor in Council to the Treasury Board—end them there. That is one of the main purposes?

Mr. BRYCE: Yes, sir.

Mr. WRIGHT: Does the Treasury Board in the ordinary run of its duty consider the annual statements of the corporations listed in Schedules C and D?

Mr. BRYCE: I would say, sir, that the board has not normally considered those unless there was some question arising out of them that required its action or attention. It has not been one of the normal routine duties, so to speak.

Mr. WRIGHT: What department of government normally checks on those annual statements? Do they go before cabinet?

Mr. BRYCE: It will be the appropriate minister in each case who will normally have the primary responsibility. I think I may say that the deputy minister of Finance normally looks at the reports. He can speak for himself on that, and the Department of Finance generally endeavours to keep itself informed on matters relating to Crown companies, as well as departments, so they can draw attention of the minister to any point.

Mr. WRIGHT: And it is the Department of Finance who are primarily responsible for checking?

Mr. BRYCE: I would not say that, sir. Each corporation is responsible to a minister and we would, I think, normally regard it primarily as the responsibility of that minister to consider any matters in the report of that corporation.

Mr. SINCLAIR: Of course, if the corporation should have a deficit then parliament—as in the case of the C.N.R., the C.B.C., the T.C.A.,—has an opportunity to move in?

Mr. BRYCE: Even in cases where it may not have a deficit, that is so if it requires a vote for capital expenditure.

Mr. SINCLAIR: Is it not true also that in the case of Crown corporations we now have a section requiring presentation by the appropriate minister to parliament of the annual reports of all corporations, henceforth?

Mr. WRIGHT: Will that mean that the annual reports of these corporations will necessarily come before a committee of the House?

Mr. SINCLAIR: I think Mr. Bryce better answer that because that is one I asked before.

Mr. WRIGHT: That is the point I wanted to find out. I am concerned with whether it is covered in Section 8 or not. It seems to me that every Crown corporation's annual report should come before some special committee of the House for consideration. They come in a general statement and we can question the minister on his estimates with regard to it, but we have not got the officials of the company there only indirectly and it is not very satisfactory to us to question through a second person, through the minister. It seems to me that Crown corporations' annual statements should come before some special committee of the House or some regular committee of the House, the same as C.N.R., the T.C.A., and the C.B.C. do at present. For instance, we never had the Polymer Corporation before a regular committee of the House.

We had it before this Public Accounts Committee a year ago and we had several of them before the War Expenditures Committee. I am sure that every member of that committee got a lot of information through having them here and it seems to me they should come normally before some committee of the House each year.

The CHAIRMAN: That was the subject of a recommendation from this committee, based on your suggestion.

Mr. WRIGHT: Is that provided for in the Act?

Mr. BRYCE: The Act provides that the report must be laid before parliament. As I understand the views of the minister, he has felt that it is up to parliament itself to decide the procedure it wants to adopt in handling the report, that it is a matter for the House rather than for the statute, that is, whether the House itself will refer the report to the committee or not is a matter for the House at the time to decide. Perhaps Mr. Sinclair could speak on that.

Mr. WRIGHT: I still am of the same opinion, and I have no opinion to the contrary, that these annual statements should come before some committee of the House each year where the officers in charge of the corporation can be questioned directly by the members and thereby get a lot of information which it is very difficult to get by indirect questioning.

The CHAIRMAN: We will later on deal with that part under Part VII, which more directly affects these corporations, and we might go at greater length into it at that part. I suggest you leave that till we get to that part. Are there any further questions on this part?

Mr. MACDONNELL: This may be academic, and I am referring to subsection 4 of section 5. In subsections 3, 4 and 5 the Treasury Board is put before us as a very important body. Now, under subsection 4, of course, we realize that the board is entirely the creature of the cabinet, and without it it has no substance of its own. Perhaps the fact that members of the cabinet are members of it makes it academic. I will read subsection 4:

"The Treasury Board in the exercise of its powers under this or any other statute is subject to any direction given to it by the Governor in Council, and the Governor in Council may by order amend or revoke any action of the Board."

Now, that may be inevitable and necessary and maybe there is no substance in it but it does seem to me in one way that is giving the cabinet almost an overriding power of the substantive powers given to the Treasury Board.

The CHAIRMAN: The Treasury Board is a committee of the cabinet.

Mr. MACDONNELL: If I cannot get anyone excited about it I will forget it.

Mr. NOWLAN: It is a new section.

Mr. BRYCE: Yes, it is a new section, but while this was put in in statute form I think it has been part of the general cabinet doctrine.

Mr. NOWLAN: A codification of the practice.

The CHAIRMAN: Shall we say that sections 3 to 7, the Treasury Board, are carried and then we will go on the Department of Finance, covered by sections 8 to 15, inclusive?

Carried.

Are there any questions on items 8 to 15?

8. There shall be a department of the Government of Canada which shall be called the Department of Finance over which the Minister of Finance and Receiver General for the time being appointed by commission under the Great Seal of Canada shall preside.

9. The Minister shall have the management and direction of the Department of Finance, the management of the Consolidated Revenue Fund and the supervision, control and direction of all matters relating to the financial affairs of Canada not by law assigned to any other Minister.

10. (1) The Governor in Council may appoint an officer, who shall be called the Deputy Minister of Finance and Receiver General, to be the deputy head of the Department of Finance and to hold office during pleasure.

(2) Subject to section eleven, such other officers and employees as are necessary for the proper conduct of the business of the Department shall be appointed in accordance with the provisions of the *Civil Service Act*.

11. (1) The Governor in Council shall appoint as an officer of the Department of Finance an officer to be called the Comptroller of the Treasury.

(2) The salary of the Comptroller shall be fixed by the Governor in Council.

(3) The Comptroller shall be appointed to hold office during good behaviour, but he is removable by the Governor in Council for misbehaviour or for incapacity, inability or failure to perform his duties properly, or for other cause.

(4) Where the Comptroller is removed from office, the Order in Council providing for his removal and the documents relating thereto shall be laid before Parliament within fifteen days after it is made, or if Parliament is not then in session, within fifteen days after the commencement of the next ensuing session thereof.

(5) The Governor in Council may appoint a person to act as Comptroller during the illness, incapacity or other absence of the Comptroller, or during a vacancy in the office of Comptroller.

12. Notwithstanding any Act, the Comptroller is entitled to free access at all convenient times to all files, documents and other records relating to the accounts of every department, and he is also entitled to require and receive from members of the public service such information, reports and explanations as he may deem necessary for the proper performance of his duties.

13. The Comptroller may station in any department any person employed in his office to enable him more effectively to carry out his duties, and the department shall provide the necessary office accommodation for any person so stationed.

14. (1) The Comptroller shall require every person employed in his office who is to examine the accounts of a department pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by persons employed in that department.

(2) The Comptroller may suspend from the performance of his duties any person employed in his office.

15. On the request of the appropriate Minister and with the approval of the Minister of Finance, the Comptroller may

- (a) provide accounting and other services in connection with the collection and accounting of public money for a department, and
- (b) examine the collecting and accounting practices applied in a department, and report thereon to the appropriate Minister.

Mr. MACDONNELL: I was hoping to get some support for the idea that the salary of the comptroller should be fixed by parliament, but I find the salaries of the deputy ministers are fixed by cabinet, so I am not able to get any further on that.

Mr. FRASER: May I ask a question on 15 (b):

On the request of the appropriate minister and with the approval of the Minister of Finance, the comptroller may

(b) examine the collecting and accounting practices applied in a department, and report thereon to the appropriate minister.

Did the business efficiency firm that looked after the National Film Board bring in any recommendations that your office carried out, or did it make any difference?

The CHAIRMAN: What is the question again?

Mr. FRASER: Did Woods and Gordon, who were the official advisers for the National Film Board, bring in any recommendations that were carried out by the accounting department?

Mr. MCINTYRE: The firm of Woods and Gordon recommended in their report that certain of the accounting services that were carried on by us be transferred to the board. The chief part of the operation was the production accounting. By transferring it back to the Film Board it was possible to decentralize a certain amount of this work due to the production unit, and that was done a year ago last April. As a result of that we reduced our treasury office staff by ten people.

Mr. FRASER: In the treasury office?

Mr. MCINTYRE: Treasury officers' services in the National Film Board—we reduced that by ten persons, but I cannot tell what staff the Film Board was required to take on to do that work.

Mr. FRASER: But they would not have to take on ten?

Mr. MCINTYRE: I do not know. I cannot answer that.

The CHAIRMAN: Are there any further questions on Part I, which concludes with item 15?

Carried.

If not we might say that we can adjourn now, but I think it had been agreed last week when we postponed our first meeting to Friday and then to this afternoon that we would in the first days of this week sit three times a day. That was Mr. Fleming's suggestion in order to make up the delay up to Friday or today. Since the session is not to extend very, very long from now, by all appearances, and we have reached only item 16, may I ask if it will be agreeable to the members if we sit tonight at 8.30? Furthermore, I have in hand a document that appears to be the maximum of optimism: "The House of Commons has referred to this committee the public accounts and the report of the Auditor General for study at this session." I would call that the maximum of optimism. But even if we just take this as a notice for the next session we still are left with this bill 25, and there are 86 more sections of this bill to be dealt with. Under the circumstances would it be in order to accept what was proposed by Mr. Fleming?

Mr. MACDONNELL: Let me say a word on that before you condemn us to this galley slave existence. Mr. Fleming was under the impression when he made that suggestion that it was considered essential that we finish this business and report this bill back to the House. When I spoke on this in the House my understanding was that there is no great pressure on us to do this, and personally I find that there are so many other things to do I hope we won't have to meet tonight.

The CHAIRMAN: It was Mr. Fleming who suggested we could get through the whole bill by sitting for three times a day, but I think the parliamentary assistant might have a word on this.

Mr. SINCLAIR: The minister's instructions to me, as far as the Department of Finance is concerned, are that he would certainly like to have this in effect as soon as possible. Also, the Minister of Public Works is extremely anxious to get it into effect because he has a Public Works bill which revolves around Section 37. More than that, it has been drawn to my attention by the Minister of Justice, with the consolidation of the revised statutes under way, by agreement of the House the other day it will include bills passed this year. If this is not passed then we will have the unique situation of having the revised statutes without a key act of government in it. That is the place where there is the greatest urgency.

I am only following out the thought which was expressed here by Mr. Fleming that, having had talks from Dr. Clark, Mr. Bryce, Mr. Sellar and Mrs. McIntyre, we would actually find the bill is not a contentious one and that it carries out for the most part the recommendations of our own Public Accounts Committee. I think myself that in another couple of sessions we will get through this bill.

Mr. MACDONNELL: That is another reason for not holding a meeting tonight.

The CHAIRMAN: To say that we can conclude in two sessions might be a little optimistic.

Mr. SINCLAIR: We have considered 15 sections now, after having had a fair amount of discussion, and I am inclined to think that two sessions tomorrow will probably see the thing through.

The CHAIRMAN: It is in the hands of the committee. I have no personal axe to grind and if the committee is willing to sit tomorrow what time shall we meet?

Mr. SINCLAIR: We can have an evening sitting but the question is whether we will start in the morning or the afternoon.

The CHAIRMAN: I think it would be better to agree that we meet tomorrow morning?

Mr. MACDONNELL: What about 11 o'clock tomorrow morning?

Mr. FRASER: We sit tomorrow morning at 11 in the House.

Mr. SINCLAIR: Not until Wednesday.

Mr. MACDONNELL: My suggestion would be 11.30.

Mr. SINCLAIR: That does not give us very much time. If we start at 11 it would give us two hours.

The CHAIRMAN: Is it agreed that we shall sit tomorrow morning at 11 o'clock.

Agreed.



HOUSE OF COMMONS

Fifth Session—Twenty-first Parliament

1951

(Second Session)

Government
Publications

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

CHAIRMAN—MR. L. PHILIPPE PICARD

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

BILL 25

An Act to Provide for the Financial Administration of the Government of
Canada, the Audit of the Public Accounts and the Financial
Control of Crown Corporations.

TUESDAY, DECEMBER 11, 1951

WITNESSES

Mr. Watson Sellar, Auditor General.
Dr. W. C. Clark, Deputy Minister of Finance.
Mr. R. B. Bryce, Assistant Deputy Minister of Finance.
Mr. B. G. McIntyre, Comptroller of the Treasury.
Mr. H. R. Balls, Special Assistant (Accounting), Department of Finance.
Mr. D. H. W. Henry, Solicitor to the Treasury.

OTTAWA
EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1951



MINUTES OF PROCEEDINGS

TUESDAY, December 11, 1951.

The Standing Committee on Public Accounts met at 11 o'clock a.m. this day. Mr. Picard, Chairman, presided.

Members present: Messrs. Anderson, Argue, Ashbourne, Blue, Boisvert, Browne (*St. John's West*), Cavers, Croll, Fleming, Fraser, Fulford, Fulton, Gauthier (*Portneuf*), Gibson, Helme, Jutras, Kirk (*Digby-Yarmouth*), Macdonnell (*Greenwood*), Major, Noseworthy, Riley, Robinson, Sinclair, Wright.

In attendance: Mr. Watson Sellar, Auditor General; Dr. W. C. Clark, Deputy Minister of Finance; Mr. R. B. Bryce, Assistant Deputy Minister of Finance; Mr. B. G. McIntyre, Comptroller of the Treasury; Mr. H. R. Balls, Special Assistant (Accounting), Department of Finance; Mr. D. H. W. Henry, Solicitor to the Treasury.

On motion of Mr. Boisvert.

Resolved: That the Committee recommend to the House that its quorum be reduced from 15 to 10 members.

The Committee resumed the clause by clause consideration of Bill 25, an Act to provide for the Financial Administration of the Government of Canada, the audit of the Public Accounts and the Financial Control of Crown Corporations.

Part II of the bill relating to *Public Money*, being clauses 16 to 23 inclusive, was called.

Clauses 16 and 17 were considered and adopted.

Clause 18, stand.

Clauses 19 to 22 inclusive were considered and adopted.

On Clause 23:

After discussion it was agreed that the said clause be amended as follows:

in the third line of subclause (1) the words "extinguish" and "or" to be deleted;

In the fourth line of subclause (1) the words "without extinguishing" to be deleted;

In the first line of paragraph (a) of subclause (1) the word "one" to be deleted and the word *five* inserted therefor;

In the second line of subclause (2) the words "or extinguished" to be deleted; the word *Public* to be inserted before the word "accounts" and the words *during any year* to be inserted after the word "section".

In the third line of subclause (2) the words *for that year* to be inserted after the word "Accounts." The Clause now to read:

23 (1) The Governor in Council, on the recommendation of the Treasury Board, may, if he considers it in the public interest, delete from the accounts, in whole or in part, any obligation or debt due to His Majesty or any claim by His Majesty,

- (a) that does not exceed five hundred dollars and has been outstanding for ten years or more, or
- (b) that does not exceed one thousand dollars and has been outstanding for ten years or more.

(2) The obligations, debts and claims deleted from the Public Accounts under this section during any year shall be reported in the Public Accounts for that year.

Clause 23, as amended, was adopted.

Part III of the bill relating to *Public Disbursements*, being clauses 24 to 40 inclusive, was called.

Clauses 24 to 28 were considered and adopted.

During the proceedings the witnesses answered questions specifically referred to them.

At 1.05 o'clock p.m. the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 3.30 o'clock p.m. Mr. Picard, Chairman, presided.

Members present: Messrs. Anderson, Ashbourne, Blue, Boisvert, Campney, Cavers, Cloutier, Fleming, Fraser, Fulford, Fulton, Gauthier (*Portneuf*), Gibson, Harkness, Helme, Jutras, Major, Maltais, Noseworthy, Nowlan, Richard (*Ottawa East*), Robinson, Sinclair, Wright.

In attendance: As indicated for the morning session.

Clause 18 of Part II of the bill was called and after discussion it was agreed to amend the said clause by inserting after the word "service" in the sixth line thereof the words *by regulation*.

Clause 18, as amended, was adopted.

Clauses 29 to 40 of Part III relating to *Public Disbursements* were called.

Clauses 29 to 37 inclusive were considered and adopted.

Clauses 38 and 39, stand.

Clause 40 was considered and adopted.

Part IV of the bill relating to *Public Debt*, being clauses 41 to 56 inclusive, was called, considered and adopted.

Part V of the bill relating to *Public Stores*, being clauses 57 to 62 inclusive, was called.

Clauses 57, 58 and 59 were considered and adopted.

On Clause 60:

After discussion it was agreed that the clause be amended by inserting after the word "time" in the second line of subclause (1) the words *but not less frequently than once in every five years*.

Subclause (1) of Clause 60 now to read:

60 (1) The appropriate Minister may from time to time but not less frequently than once in every five years constitute a board of survey to enquire into the state of the stores under the management of a department.

Clause 60, as amended, was adopted.

Clauses 61 and 62 were considered and adopted.

It was agreed to allow Part VI in relation to *Public Accounts* to stand until the next meeting of the Committee.

Part VII of the bill relating to *The Auditor General*, being clauses 65 to 75 inclusive, was called.

Clauses 65 to 69 inclusive were considered and adopted.

On Clause 70:

Mr. Fleming moved that subclause (2) of clause 70 be amended by deleting the words "thirty-first day of December" in line 22 thereof, and inserting therefor the words "fifteenth day of October".

After discussion, and the question having been put, the said motion was resolved in the negative.

Clause 70 was adopted.

Clause 71, stand.

Clause 72 was considered and adopted.

On Clause 73:

After discussion it was agreed that the clause be amended by inserting the word "*forthwith*" after the word "shall" in the third line thereof. Clause 73, as amended, was adopted.

Clauses 74 and 75 were considered and adopted.

Part VIII of the bill relating to *Crown Corporations*, being clauses 76 to 88, was called.

Mr. Balls made an explanatory statement on the clauses comprising this Part of the bill and was questioned thereon.

Clause 76, stand.

Clauses 77, 78 and 79 were considered and adopted.

During the afternoon proceedings the witnesses answered questions specifically referred to them.

At 6.00 o'clock p.m. the Committee adjourned to meet again at 11.30 o'clock a.m., Wednesday, December 12, 1951.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

DECEMBER 11, 1951.

11:00 a.m.

The CHAIRMAN: Gentlemen, before we start with the witnesses this morning I wonder if it would not be in order, in view of the urgency of this measure, to make a motion that is regular in other committees. We have a practice of not making it in this committee, and I speak of reducing the quorum. In Public Accounts, usually, we have made it a rule not to reduce the quorum in view of the importance of the matters that come before our committee; when dealing with the accounts we should have as large a number of members as possible.

However, in view of the urgency of the present measure and for this special session, I wonder if we could follow the procedure of other committees and move a reduction of the quorum from 15 to 10. That leaves a good number of members and as many as are on other committees.

Mr. BOISVERT: Is there to be another meeting today?

The CHAIRMAN: There is, and as I said at the end of the meeting yesterday it is the maximum of optimism to think we will finish in two meetings. We also have the Public Accounts and the Auditor General's report but I do not think we will get into them in this session.

Mr. BOISVERT: I would move that we reduce the quorum.

Mr. MACDONNELL: I do not object to it.

The CHAIRMAN: It is due to the fact that many members are kept at meetings of other committees. I have been one who opposed this and I thought it not advisable in years when we were on the details of expenditures; I wanted as large a number of people as possible to be here. In view of the present short session and the urgency of getting this measure through I wonder if it might not be done?

Mr. BOISVERT: I think it is a good move.

Mr. FULFORD: I would second the motion.

Agreed.

The CHAIRMAN: We have with us the same witnesses that were here yesterday and we resume consideration of Bill 25, Part II, page 6, Section 16. This part goes from item 16 to item 23, inclusive.

16. (1) Subject to this Part, all public money shall be deposited to the credit of the Receiver General.

(2) The Minister shall establish, in the name of the Receiver General, accounts with such banks and fiscal agents as he designates for the deposit of public money.

(3) Every person who collects or receives public money shall keep a record of receipts and deposits thereof in such form and manner as the Treasury Board may prescribe by regulation.

(4) Every person employed in the collection or management or charged with the receipt of public money and every other person who collects or receives public money shall pay all public money coming into his hands to the credit of the Receiver General through such officers, banks or persons and in such manner as the Minister directs.

Are there any questions on the different items? We will take them together.

Mr. MACDONNELL: "Subject to this part", the very first phrase? What are the qualifications?

Mr. CLARK: That really refers, Mr. Macdonnell, to Section 19 (1) where money is deposited with a public officer by any person as a deposit to ensure the doing of any act or thing. In such case the public officer shall hold or dispose the money in accordance with regulations of the Treasury Board. Contractors' deposits would be a case in point.

Mr. MACDONNELL: Referring to Part 4 of Section 16, are government officials ever bonded?

Mr. CLARK: There is a bonding arrangement within the civil service itself. If you turn to Section 98 you will see provision for the setting up of a public officer's guarantee account to which will be transferred the balance of the present fund and amounts paid by departments by way of premiums each year, and amounts recovered out of claims. This is a scheme which has been in effect since back in the middle '30's but we are now setting it out into legislation for the first time. Actually I can give you figures on the fund. The fund has operated quite successfully and there is quite a balance in the fund now, I think something like \$600,000. It is \$637,000 to be exact.

Mr. BALLS: The premiums that have been deposited to the credit of this account since the inception of it amount to \$587,938; interest has been added amounting to \$100,473; and net payments out of the fund on defalcations have been \$50,613.

Mr. MACDONNELL: In how long?

Mr. BALLS: Since 1936.

Mr. FRASER: How does the department pay that? Does each department chip in?

Mr. CLARK: Each department pays a certain amount each year. The deputy minister of the department gives us a list of the particular officers he thinks should be bonded and the amounts for which they should be bonded. There is a premium rate that is charged on those amounts. The actual payments come out of the department's estimates for each year.

Mr. FRASER: From each department—and your treasury officers in that department would also be bonded?

Mr. CLARK: Oh, yes.

Mr. MACDONNELL: Does that mean that each department could in effect fix the amount of its own premium?

Mr. CLARK: No, it is a premium established by regulation.

Mr. MACDONNELL: They could state which officers they want to have bonded?

Mr. CLARK: Yes.

Mr. MACDONNELL: Supposing the man that they have not included is a man who should have been bonded, what happens then?

Mr. CLARK: I think the practice is to cover everybody who has custody of funds or who is in a position to cause a defalcation.

Mr. MACDONNELL: When you say the department picks out the men you mean that certain categories are included?

Mr. CLARK: That is right.

Mr. FRASER: A blanket policy?

Mr. CLARK: Not blanket in the sense of covering every person, but it covers every person who is in a position of custody over public funds.

Mr. BALLS reminds me that more recently we have changed and given blanket coverage in certain cases.

Mr. FRASER: That would be the only fair way I think you could cover them.

Mr. CLARK: In certain departments.

Mr. MACDONNELL: Your record is certainly enviable. Are there any slips of any kind, or are these things dealt with without publicity? You have not had many experiences, I realize, but I just wonder if there was a practice—

Mr. CLARK: I do not think there is any special publicity given to the defalcations.

Mr. MACDONNELL: But the other way around, are there any steps taken to avoid publicity?

Mr. CLARK: I would not say that. I do not think particular pains are taken to avoid publicity. Under the bill as it now stands, in subsection 3 of section 98:

Every payment out of the public officers guarantee account and the amount of every loss suffered by His Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, shall be reported annually in the public accounts.

That much will be given in the future.

Mr. CROLL: As a matter of fact, that has been given in the past, in the public accounts?

Mr. CLARK: That is right.

The CHAIRMAN: The Auditor General being here, might have something to say on this matter.

Mr. SELLAR: Mr. Chairman, ordinarily defalcations happen either in connection with the treasury or the revenue collection departments, that is where they are, and this fund is essentially to keep the account in balance, but the departments almost invariably prosecute. We take the people to court because that is the only way we can keep the fear of God in the whole staff, and we have urged repeatedly on the treasury and we hope in due course the Department of Finance will come to our terms and give us a blanket policy of \$50,000 on the whole of our staff. That is, the whole staff is insured, because you might miss the odd person who does go crooked on you, but, generally speaking, as soon as we have a defalcation it is reported to the mounted police and to the Justice Department and you have a prosecution. This account is not used to cover up any criminal.

The CHAIRMAN: Any further questions, gentlemen, on Public Money, Part II?

Mr. FRASER: On page 8, subsection 4. Mr. Chairman, do you want to jump that far ahead?

The CHAIRMAN: Well, anybody who is going to ask a question on items might call them.

Mr. SINCLAIR: I think it would be better to take them in order.

The CHAIRMAN: Section 16.

Carried.

Section 17.

17. (1) The Minister may, when he deems it advisable for the sound and efficient management of public money or the public debt, purchase, acquire and hold securities and pay therefor out of the Consolidated Revenue Fund.

(2) The Minister may sell any securities purchased, acquired or held pursuant to subsection one, and the proceeds of the sales shall be deposited to the credit of the Receiver General.

(3) Any net profit resulting in any fiscal year from the purchase, holding or sale of securities pursuant to this section shall be credited to the revenues of that fiscal year, and any net loss resulting in any fiscal year from such purchase, holding or sale shall be charged to an appropriation provided by Parliament for the purpose.

(4) For the purposes of subsection three, the net profit or loss in any fiscal year shall be determined by taking into account realized profits and losses on securities sold, the amortization applicable to the fiscal year of premiums and discounts on securities, and interest applicable to the fiscal year.

Mr. MACDONNELL: I would like to hear something about section 17, subsection (1):

The minister may, when he deems it advisable for the sound and efficient management of public money or the public debt, purchase, acquire and hold securities and pay therefor out of the consolidated revenue fund.

I would like to understand a little bit better just what is meant by "sound and efficient management". I take it this is something quite apart from the investment of idle funds.

Mr. CLARK: This relates to the investment of surplus funds. I think I can best illustrate it by pointing out when the practice arose and the times when it has been used.

Mr. MACDONNELL: Could you also make me understand, in connection with this investment, what is the nature of the investment when you pay interest to yourself? In other words, I think you can only invest in government bonds?

Mr. CLARK: Most transactions of this kind have occurred during war periods when the government was raising enormous sums of money by public issues of victory loan bonds, first world war bonds and second world war bonds. On those occasions, as you know, very intensive efforts would be put into the promotion of the sales campaign and very large sums were raised. Sometimes sales were probably in excess, if you like, of real investment demand, sales were made to people who did not intend to keep their bonds very long, and after most of these campaigns, certain people would get rid of their bonds and these bonds would have to be picked up. Well, now, at the same time we would have, after each of these issues, a very large cash balance in the treasury. It was therefore felt that prudent management by the Minister of Finance of public moneys in the consolidated revenue fund and of the public debt required him to be in a position to make purchases of bonds in such cases. The bonds would be held for a time depending, of course, on our requirements for cash, until further investment demand emerged for the issues in question and they would then be sold. The result was to give a greater degree of stability to the market and to further the sale of securities in future. I mean, it made it very much easier to go ahead and make a successful issue the next time, and so on. This then was the beginning of such operations, back towards the end of the first world war. The same practice was followed again in the second world war. Very large sums were invested. From about 1940 on, I think as much as \$2,700,000,000-odd were invested in the aggregate. All these bonds were disposed of two or three years ago when the last bond was sold. The result of that operation was an actual loss on principal of about \$8,000,000, but an earning of interest of \$53,000,000, which I think meant that the policy was a highly successful one. It really was an essential element in the successful financing of the war.

Mr. MACDONNELL: I think I can understand that when you are making these huge loans, as you say, some people would buy and then for various reasons

would want to sell, and this would be, in a sense, a market support. That amount of \$2,700,000,000, would that be the amount invested at one particular time or would you extend that operation over a period of years?

Mr. CLARK: That was the total amount purchased over a period of years.

Mr. MACDONNELL: When you say a loss of principal of \$8,000,000, I can understand that quite easily, that is in the ordinary market operations, but what puzzles me, though, is what is the exact effect when you say that a profit of \$53,000,000 was made on interest.

Mr. CLARK: The net effect of it would be to save that much interest, which otherwise would have had to be paid out to third parties. An account of these transactions was kept and the interest was credited to that account and the total amount of interest so credited was this amount of \$53,000,000. If those bonds had remained outstanding in the hands of the public, the government would have had to pay \$53,000,000 interest to third parties.

Mr. MACDONNELL: In other words, you say that your support operations, which were taken for the purpose of steadying the market, did in effect through your holding of these bonds save you that amount of interest which you otherwise would have paid.

Mr. CLARK: Yes, and I think that is the essential meaning of that phrase—"for the sound and efficient management of public money or the public debt".

Mr. MACDONNELL: Of course this question still remains. From one point of view, it might be argued that you marketed more bonds than you needed, because you then had to step back into the market and over a period you did actually invest a very large sum, \$2,700,000,000, but your answer to that, I take it, is that in the long run you needed that money and, therefore, it was worth your while to pay interest.

Mr. CLARK: Yes, the money was needed in each case.

Mr. GIBSON: What do you do with your surplus funds now? Do you put them into government securities?

Mr. CLARK: If we have any very substantial sums of surplus cash, yes.

Mr. GIBSON: What have you now?

Mr. CLARK: Well, we have a certain amount invested now, yes. But that may not be what you were asking, Mr. Gibson—are you thinking of what is done with the budgetary surplus?

Mr. GIBSON: With the surplus that you have.

Mr. CLARK: With that \$600,000,000 surplus accumulated so far this year—well, a great many things have been done with that. For instance, if I recall the figures correctly, so far this year we have had to use about \$293,000,000 to make loans, advances and investments that we have to make all the time for housing purposes, to the Farm Loan Board, to the Canadian National Railways, to other crown companies, and so on,—about \$293,000,000 has been used for that purpose. Then there is another substantial amount of the order of a couple of hundred million dollars, if I remember correctly that has been used for the retirement of debt.

Mr. GIBSON: Do you ever make a capital profit by buying bonds that have sagged below par?

Mr. CLARK: Oh, yes, indeed.

Mr. GIBSON: You sometimes make a profit on your own bonds?

Mr. CLARK: Oh, yes. This figure of \$8,300,000 that I referred to before is the net figure. At times there were very substantial capital profits in that account, at other times that profit disappeared, and at the end the net effect overall from the beginning was a loss of \$8,300,000.

Mr. GIBSON: Did you have to buy bonds over par?

Mr. CLARK: That is right.

Mr. WRIGHT: Is the government at the present time buying these bonds that are below par?

Mr. CLARK: Well, at the moment we have a certain amount of bonds that have been purchased in the recent past; yes, at a price below par. I do not think the fact as to whether they were below par or above par would influence us too much. There would be other reasons that would determine whether a purchase was made or not. But at the moment we do have a certain amount of these bonds in this kind of account, purchased in the recent past at a discount, yes.

Mr. WRIGHT: If you hold them, of course, to maturity, you would make a profit on them?

Mr. CLARK: Oh, yes, if they were held to maturity.

Mr. WRIGHT: This section 17 indicates that it is new. Under what authority did you carry on this practice before this section was in the Act?

Mr. CLARK: The Department of Justice had given us an opinion that under the Department of Finance and Treasury Board Act, which amongst other things makes the Minister of Finance responsible for the management of public funds and public debt and the Consolidated Revenue and Audit Act, the Minister of Finance had the authority to make the purchases that have been made in the past. We thought it better however that it should be spelled out in law, that his authority should be spelled out in detail and particularly that the accounting treatment of the transactions should be regulated as they are now going to be under section 17.

Mr. FULFORD: Mr. Chairman, I would like to ask Mr. Clark a question. He said that interest is saved through the acquiring of government securities and bonds, and I was just wondering if that is a true picture because you are losing income tax and corporation tax on the interest paid on that bond to third persons. Has any estimate ever been made of the amount of corporation or income tax you are losing—it is not clear profit to the Treasury Department?

Mr. CLARK: Well, if the bonds had been held by private persons and they received the interest on the bonds, they would have paid taxes on that interest. We have not made any such calculations, Mr. Fulford. I do not think it would be possible to make such a calculation. You would have to assume that the bonds were purchased by people of certain incomes, so many in this income tax category, so many in the next income tax category and so on. You would have to make rather wild assumptions as to how the holdings were spread over the different classes of taxpayers, paying different tax rates.

Mr. FULFORD: Are you saving \$53 million in interest? You are not really saving \$53 million, are you?

Mr. CLARK: We have saved \$53 million which we would otherwise have had to pay out to third parties.

Mr. SINCLAIR: If you did not invest in our own bonds at 3 per cent, the money would simply be lying in the bank, would it not?

Mr. CLARK: Yes.

Mr. SINCLAIR: So we are getting the best return on it? That is the prudent thing to do.

Mr. WRIGHT: Dr. Clark stated that the matter had been referred to Justice before as to the legality of carrying on this practice.

Mr. CLARK: Yes.

Mr. WRIGHT: Has it ever been referred to the Supreme Court to determine whether the practice followed by the department is legal?

Mr. CLARK: No, it has never been so referred. I do not think the practice has ever been questioned. It is a practice that has been followed for 30 years, and it has never been questioned by anyone to my knowledge.

Mr. GIBSON: We allowed people to assume during the war by virtue of the fact that we went into the market and supported the price. Did we not allow people to assume, quite naturally, with respect to these bonds? There is considerable difficulty in the country now because people want to cash these bonds; people feel that they have been let down by this government by virtue of your own operations.

Mr. CLARK: I think that the Minister of Finance at the time, Mr. Ilsley, stated that these bonds would always be negotiable, and that there would be a ready and stable market for them. But he steadily refused to say that they would be maintained at any fixed price. Several times in the House of Commons there was a debate on that subject and he was urged to do that, but he steadily refused. On several occasions he refused to do that because he thought it would be unsound.

Mr. SINCLAIR: The member who sat next to Mr. Gibson was the one who strongly urged that course on Mr. Ilsley, but Mr. Ilsley said he would not follow it.

Mr. GIBSON: Do you think that the fact that there are registered bonds and bearer bonds makes any difference on the market?

Mr. CLARK: No. I do not think there is any difference in the market arising from a distinction between registered and bearer bonds.

Mr. GIBSON: I do not like to see the government making a profit on bonds. There seems to be something wrong about it.

Mr. SINCLAIR: Who ought to make a profit on capital then, Mr. Gibson?

Mr. MACDONNELL: There is another question. Am I right in thinking that the operations which you have been describing are carried on directly by the Department of Finance?

Mr. CLARK: We buy through the Bank of Canada.

Mr. MACDONNELL: Perhaps I can make it clearer. Are you including in what you said all the transactions of the Bank of Canada?

Mr. CLARK: No, I am talking only of the Government of Canada.

Mr. MACDONNELL: That is what I thought. Would you indicate to us the practice which is followed in respect to investments by the Bank of Canada? Is that a fair question? Is that part of the management of public funds?

Mr. CLARK: No. I think that would be a question for Mr. Towers of the Bank of Canada to explain.

The CHAIRMAN: If the committee felt it was material to have an opinion on that, I think it would be fair to ask it from the man who has the authority on it, and on these policies, that is, the Governor of the Bank of Canada. But can we not carry on with this article and ask the people who are responsible for drafting this for their opinions? And if you feel you have not got enough of them, we can always summons another witness. But could we not go on with this and have the opinions of the witnesses who are present?

Mr. MACDONNELL: In answer to Mr. Gibson you pointed out that you were able to find \$300 million for housing operations and so on from the surplus. In other words, you were able to take that from taxes and use it for that purpose. But suppose you had not had that surplus; would that have just been a normal borrowing operation?

Mr. CLARK: The cash would have had to be raised in some other way presumably by borrowing.

Mr. MACDONNELL: Is it universal government practice—and I am thinking of other countries as well—not to buy any securities except their own? It seems to me there is a certain illusion about paying yourself interest out of one pocket into another. I do not question the accuracy of the figures you have given, but I do think there is a certain unreality about it. Is it the considered opinion of all governments that they must never be allowed to invest in other than their own securities and not even in the highest class of investments?

Mr. CLARK: I do not know of any other government that would purchase other types of security for such a purpose; I cannot think of any off-hand. I would not think it would be the normal function of a government or of a minister of finance to go outside its own obligations to buy securities and hold them as a sort of investment trust.

Mr. MACDONNELL: I know it would be very difficult, but I am interested in the point.

Mr. CLARK: The assumption behind this practice is that there is a duty on the Minister of Finance to manage his cash balances, and his debt prudently and efficiently.

Mr. MAJOR: Did you not say a moment ago that you were accumulating a surplus or a profit out of your sales? Do you find in your department that it would be more advantageous to deal with this surplus in paying your expenditures rather than having to go out and borrow further amounts?

Mr. CLARK: It is not too easy to borrow very large sums of money today. The market is not in very good condition for borrowing very large sums of money.

Mr. MACDONNELL: I will say so!

Mr. CLARK: I would not like to have to go out today and raise a very large sum of money, let us say, several hundred million dollars of money.

Mr. FRASER: And the interest rate would be up, would it not?

Mr. CLARK: Not only that, but it is very difficult to sell any large volume of bonds.

Mr. MACDONNELL: What rate of interest do you get? You have deposits in the chartered banks, have you not?

Mr. CLARK: Yes.

Mr. MACDONNELL: What rate of interest do you get on those deposits?

Mr. CLARK: We do not get any interest on our normal deposits in the chartered banks. The banks perform certain services for us free of charge. The great volume of services are performed for us free of charge and we do not get any interest on our ordinary bank balances in Canada. We may get interest on balances in New York or London, whatever the short term rate may be at the time.

Mr. NOSEWORTHY: How much money do you have on deposit at any one of the private banks? Have you any idea?

Mr. CLARK: That will vary, Mr. Noseworthy, a great deal. Let us say, from a minimum of \$10 million or \$12 million for all banks (that would be pretty close to the minimum limit of what we can have at any one time and still carry on our operations) up to perhaps \$100 million or \$150 million or even \$200 million. But when it gets up to be as large as these amounts we might desire to do something of this sort I have mentioned with it. However our total balances in the bank vary greatly from day to day, from month to month, and over the years.

Mr. NOSEWORTHY: Could you give us any idea of what would be the average amount on deposit throughout any fiscal year?

Mr. CLARK: On the average, \$75 million, or perhaps between \$50 million and \$100 million.

Mr. MACDONNELL: I suppose it would be up and down?

Mr. CLARK: Yes, it would be up and down.

Mr. MACDONNELL: So what you said about it being difficult to have a definite rate of interest is because of the up and down fluctuations?

Mr. CLARK: That is right. Take the case of cheques. They run to very substantial amounts, and necessarily so with a substantial number of cheques going out at one time you cannot write cheques for \$20 million or \$40 million and not have some sizeable balance in your bank accounts.

Mr. SINCLAIR: I suppose we are not charged by the banks for handling government of Canada cheques?

Mr. CLARK: That is right.

Mr. FRASER: They pay them at par.

Mr. CLARK: That is right.

Mr. MACDONNELL: Your account would be handled like that of any current account on deposit?

Mr. CLARK: Yes.

Mr. WRIGHT: Are these Dominion Government deposits used by the chartered banks as a basis for their loans, or as part of the basis of their loans? Is it the policy of the chartered banks to loan that money under the Bank Act?

Mr. CLARK: I am afraid that you are opening up a very large question. I think all I could say is that their policy in loaning money probably depends on the amount of cash reserves they hold at any given time.

Mr. WRIGHT: That would be part of their cash reserves?

Mr. CLARK: This would result in increasing their cash reserves, yes.

The CHAIRMAN: On a temporary basis?

Mr. CLARK: On a temporary basis, yes.

The CHAIRMAN: For the time being.

Mr. NOSEWORTHY: You say that at no time have they dropped below \$10 million, and that on the average it is between \$50 million and \$100 million?

Mr. CLARK: In these times, yes. In the last few years, I would say that that would be a fair average; and the total almost never drops below \$10 million. We have to meet substantial amounts every day in the clearings and you cannot operate on any other basis.

Mr. CROLL: Was that always the arrangement with the banks?

Mr. CLARK: Yes. There have been some changes in detail, but generally speaking that has been the arrangement.

Mr. CROLL: Then in time, have you ever been able to indicate to yourself what the probable savings are from the services, or what those services would likely cost you?

Mr. CLARK: Well, the banks every so often make estimates of what it costs them to do the work which they have to do for the government.

Mr. CROLL: Yes?

Mr. CLARK: And they claim they are in the hole very very substantially. However, I think that is a very difficult matter to calculate accurately. You would have to go into the subject of cost accounting in the banking business and I think the banking business is an extremely difficult type of business to

which to apply cost accounting methods. I am not very well satisfied with such estimates whenever an attempt is made to put them on too exact or precise a basis. I am sure I could say this, however, that the banks do not get over-paid for the work they do. And they think that they are getting very much under-paid.

Mr. CROLL: And we are going to continue to resist them?

Mr. CLARK: I think we shall continue more or less with the same policies under which we have operated in the past.

Mr. RILEY: What is the practice in respect to these chartered banks? Do you spread your funds over all of them?

Mr. CLARK: Yes. In Canada our balances are held in the Bank of Canada here at Ottawa and in all the branches of the chartered banks. We have balances here in every one of the Ottawa branches of the chartered banks and also in Barclay's Bank in Montreal, which has not got any branch here in Ottawa. We spread the balances amongst the banks, again on the basis of the relative amount of work which they perform for the government. If one bank is cashing more cheques, handling more bank drafts and so on than another it would get a larger share of our business. Actually, the arrangement that we now have in effect is for a division of our business amongst all of them on a basis on which they have agreed amongst themselves. That is to say they agreed that one bank getting "X" per cent of our balances, another "X plus 2" per cent or whatever it may be, and so on.

Mr. RILEY: How long has that policy been in effect?

Mr. CLARK: This particular arrangement now in effect has only been in effect for a little over a year now. There has, however, been a somewhat similar arrangement in effect going back for a much longer period of time, but differing in detail.

Mr. RILEY: Was it true at one time one or two of the chartered banks handled the bulk, or most of the government business?

Mr. CLARK: Yes, years ago, before the establishment of the Bank of Canada as our central bank, the Bank of Montreal was government's principal bank.

Mr. WRIGHT: If the banks were losing money on their business do you think they would—they would scarcely want to divide the loss, take it away from the one or two banks that were handling the business in the first place, particularly if the other banks say it cost them so much for doing business. It seems to me this has a bearing on whether there may be a loss or a gain on handling government business.

Mr. CLARK: Sometimes I make a somewhat similar argument, Mr. Wright, to the banks; but I would say that whether or not the banks were losing money on this government business they would probably have to continue to do it. They would not want to have their customers find themselves unable to cash government cheques at their own bank, and so on; and, actually, the banks also may get a certain prestige value out of government business. Certainly I think they really do want the business. They would like to have the business even though it does result in some loss on a strict accounting basis. They want to have their fair share of it.

Mr. RILEY: Do you believe, yourself, that they are losing money on this practice?

Mr. CLARK: Well, I think that they have honestly tried to cost account their operations. They have made an honest attempt to cost account the business they do for us, but I am not sure all the assumptions they work on are correct—the results might not be too unsatisfactory. But you have to

determine the amount of time the manager, the teller, the accountant and what not spent on our business each day as compared with all the other types of business; you have to prorate the bank overheads in certain ways. There may be an argument as to whether they follow the most appropriate way of making these calculations and spreading these overheads; there have been arguments on every point all along the way. What I am saying is: I think they make an honest attempt to cost account their business and get a true picture of what it costs them to do their operations for us; and they certainly present figures which seem to show that they are carrying on certain operations at a loss. I might disagree, as I said, with the extent of the loss that they calculate, disagree here and there on this detail or the other. However I may say frankly, I think it probably will be necessary for us some time to increase the remuneration that we are paying the banks for certain operations; for instance, for the work they do in connection with the redemption of coupons on government bonds. We pay them only one-eighth of 1 per cent, and one-eighth of 1 per cent on a \$3 coupon is a pretty small payment for the work which is involved. I think they probably have established a fairly good case on that point and that I will have to recommend to the minister that payment for that service should be raised, don't you see. From time to time there may have to be other adjustments made in what we do for them.

Mr. FLEMING: Perhaps if these questions are pressed too far we shall be encouraging them to come along with demands for payment.

Mr. SINCLAIR: Has not the increase in the volume of small cheques, particularly with regard to the 3 million cheques monthly for family allowances cheques and the 800,000 cheques monthly for old age pensions—cheques which the people must cash in their own locality—had an important effect on banking? If any bank were to refuse to cash those cheques you can understand the amount of business they would lose in a town.

Mr. CLARK: That is what I meant to say a moment ago.

Mr. ASHBOURNE: What is the commission paid to the Bank of Canada for the purchasing of bonds and securities on government account?

Mr. CLARK: When they purchase bonds for us I do not think they charge us anything for their own work. The purchase would have to be made through a broker and the ordinary brokerage charge would be paid to the broker, and we would have to recoup that. However I do not think the Bank of Canada makes any charge for their own work.

Mr. WRIGHT: What is the situation at the present time with respect to extra remuneration to banks for cashing such cheques as old age pensions and family allowances. Are they paid anything for that?

Mr. CLARK: No.

Mr. RILEY: You do pay them the equivalent of interest they would otherwise have for money on deposit?

Mr. CLARK: What is that?

The CHAIRMAN: Would you repeat your question, Mr. Riley?

Mr. RILEY: I understand they do not pay the government for funds on deposit.

Mr. CLARK: No.

Mr. RILEY: That is treated as the ordinary current account?

Mr. CLARK: That is a current account, yes.

Mr. RILEY: Should you not include the benefit you get from the use of that money?

Mr. CLARK: Oh, I do not think it would be fair to do that. As I said, I think they have a pretty fair argument against us now, against not paying interest.

Mr. RILEY: That is what I say; what they would otherwise be paying in the way of interest would accrue to them.

Mr. CLARK: Counting everything that they make on our balances that they hold I think they can build up a fairly good case that they are underpaid on certain operations. Certainly they are not being overpaid.

Mr. FRASER: Mr. Chairman, the banks also have to fill out forms to cover the heavy increase in foreign exchange transactions which they do for you free.

Mr. CLARK: Yes.

Mr. FRASER: They also have a heavy increase of cost on coupons which are deposited.

Mr. CLARK: Yes, on ownership certificates, they do a good deal of work for the government.

Mr. FRASER: Those are things which they do free of charge.

Mr. CLARK: Yes.

Mr. MACDONNELL: The various things which have been mentioned by Dr. Clark are important services; are there any other important services that have not been mentioned? I think it would be of interest to the committee to know if they provide a service in connection with the Foreign Exchange Control Board?

Mr. CLARK: Oh, yes, they are agents of the Board and they get certain payments for that work.

The CHAIRMAN: Shall the section carry?

Carried:

Section 18:

18. Where a service is provided by His Majesty to any person and the Governor in Council is of opinion that the whole or part of the cost of the service should be borne by the person to whom it is provided, the Governor in Council may, subject to the provisions of any Act relating to that service, prescribe the fee that may be charged for the service.

Mr. FLEMING: I have a question on section 18. What happens in the case of rescue operations, particularly those of the type carried out at sea by the R.C.A.F.? This section would apply to such cases, apparently, and it would appear to authorize the Governor in Council to prescribe the fee that may be charged for services. I understand that this is a new provision in our legislation.

Mr. McINTYRE: I am afraid that I cannot give you the answer to that. As far as I know there is no charge made for rendering such services.

Mr. FLEMING: That is what I understood to be the present position. Of course, some of the rescue operations can be very expensive. I am pointing out that this is a new section and it would in such cases appear to authorize the Governor in Council to prescribe the fee that may be charged.

Mr. McINTYRE: Yes, if the Governor in Council saw fit to do so.

Mr. FLEMING: Is the kind of fee that is contemplated here something of a set of general application or would it be prescribed having regard to the cost of any particular operation at the time?

Mr. McINTYRE: I think the fee which is contemplated here would be fixed in each particular instance.

Mr. CLARK: That would cover certain categories of service.

Mr. BRYCE: The government renders quite a number of services of various types, everything from certifying cattle pedigrees to the working out for mining ores of the development of special processes, and various research jobs. There is a large variety of functions that the government performs that benefit various individuals or companies or groups, and which at the present time are subject to certain fees. In some cases these fees are provided for by statutes and in some cases they are not. The present section provides a definite legal authority to charge fees for such services. The intention of putting this in the Act is to make it quite clear that where the government renders a service it is in a position to make charges.

Mr. FLEMING: Mr. Chairman, I have no doubt at all that where the government does render a service of a general nature that is over and above the general service rendered to all citizens it is probably not unfair generally to make a charge for the service. The language here is very broad. This is new legislation. I am just wondering how far parliament is justified in committing itself entirely to the Governor in Council in this matter. As for the rescue operation, that is just an obvious case that occurs to one. One would not want to see the imposition *ex post facto* of charges in a case like that, because some charges in respect to that service have been very great.

The CHAIRMAN: Which authority would you suggest could do it better than the Governor in Council, could determine the fee? I mean, the Governor in Council acts on the advice of the department which renders the service, and the fact that it is now to be reviewed, authorized by the Governor in Council, is just adding another safe-guard. It has to be reviewed by the Governor in Council before it is fixed so that it would be fair.

Mr. FLEMING: Perhaps I have not quite the same complete confidence in Governors in Council, Mr. Chairman, that some others here possess.

The CHAIRMAN: I say the Governor in Council, but over a period of years the personnel changes from time to time; and, in a democratic country, when one says the Governor in Council I think it means the best authority according to the expressed wish of the people; without this section the department could send in its bill for services rendered, but with this provision it has to be reviewed by the Governor in Council.

Mr. FLEMING: What happens to them after that? If they are to be laid down in the form of general regulations would they be tabled in parliament in accordance with the Regulations Act?

Mr. HENRY: Yes, sir, the Regulations Act would require regulations of this kind to be tabled.

Mr. FLEMING: Now, that might be of some assistance with regard to general regulations of the kind Dr. Clark spoke of being put together into various categories; and that would be what one would expect. I think that the power would probably be used in that way. The Governor in Council might be given the necessary power for dealing with such general categories; on the other hand, in permitting *ex post facto* the fixing of the fee for some of the special services we would be conferring a power so great that it strikes me that it is capable of quite arbitrary use in a situation of that kind, in a completely *ex post facto* application.

Mr. HENRY: This section, Mr. Chairman, was really intended to be dealt with as more or less a contractual section allowing the government to charge some sort of a fee for carrying out services which ordinarily might be expected to be done on a contract basis. That has been done in certain cases where a person might reasonably expect to pay for some service. Perhaps a good

example is the Mint Custom Refining and Storing Regulations under which we carry out certain services in the Mint for gold mines. They pay for storing, refining and so on. That is just a contract and there was not anything meant other than that when the section was drawn.

Mr. FLEMING: Is it not clear that the section is broader than that? I think that matter would be clear enough and it is acceptable enough because when you publish your fees people do not have to take advantage of the service and pay the fee. They will know the amount of the fee in advance, as it will be promulgated. However, what about the possibility, and I think it is definitely a possibility in view of the language of Section 18, of charges being levied *ex post facto* for a service that might be quite extraordinary, assuming that it may be a situation that arises outside of the scope of the fees you have laid down in your proper categories by exact regulation?

Mr. HENRY: I think the section probably is worded widely enough to allow you to fix a fee for work done, but I doubt very much if the Governor in Council would operate on that basis because, after all, the categories of work that it has been thought over a period of time should be charged for, are fairly limited and the only intention is to make it clear that if it is desirable to charge a fee for that particular service there should be authority for it.

I doubt very much if the question would be dealt with as Mr. Fleming suggests because it is open to a lot of difficulties. One of the difficulties you have is the question of collecting. If you do not have fees published in advance, because most of the things are done on the basis of a voluntary application—perhaps that is not the case with air rescue work—but most of the services are done on application of the person who wants them done, and it is reasonable that the regulations should point out in advance what he is expected to pay. If not, you have a collection problem and obviously you have to deal with these things in a reasonable manner.

Mr. FLEMING: Apart from all those practical considerations that go to the question of how the Governor in Council is to go about using the power, I do not think it completely answers my question about the breadth of the powers being conferred. These powers are so broad they are capable of being exercised in an arbitrary way and not in the manner indicated now. Our concern as legislators must be with seeing that the powers are broad enough to cover the need but not any broader.

Mr. HENRY: The alternative would be to set out, I suppose, some sort of principles, but that is very difficult to do. I think it is probably more practical to leave it, as one member of the committee pointed out, to delegated legislation. You have much the same principles in ordinary private enterprise—where somebody comes along and does work for you and you accept it, then you pay for it on a *quantum meruit* basis.

Mr. MACDONNELL: But you do not prescribe it?

Mr. HENRY: The courts prescribe it if it comes to a showdown.

Mr. FLEMING: On this *quantum meruit*, you have a couple of safeguards in private contracts, but here whatever the Governor in Council prescribes at that point is final.

Mr. CLARK: Would it meet Mr. Fleming's point if you added "by regulation" after "may" ". . . may, by regulation, subject to any other Act prescribe. . . ." That would mean, I should think you would have to have regulations in existence prior to the performing of the service.

Mr. FLEMING: I think that would be a very useful safeguard.

Mr. CLARK: The only difficulty I see is there are some cases which might be individual cases. For example Mr. Bryce mentioned the services rendered by the Mines Branch of Resources and Development. They are all individual

cases and it would be very difficult to have a general regulations covering that type of matter unless it were said simply that in no case will the fee be less than the cost of performing the particular service—or something of that sort.

The CHAIRMAN: May I contribute something? If you add the words “by regulation” would there not be cases in which the parties interested must have an answer quite quickly and you would not have time to pass new regulations to cover the particular case?

Mr. FLEMING: I presume the regulations would say: In cases not heretofore covered the fee shall be the sum agreed upon between the government or the minister and the party receiving the services or applying for them?

Mr. GIBSON: But that would not be part of your regulation?

Mr. FLEMING: Yes, that would be part of your regulation. The regulation would cover, by such words, all cases not otherwise covered.

Mr. CLARK: I think I might check with the minister. Probably he will be willing to accept an insertion of the phrase “by regulation” there. Then we could have some catch-all clause such as you suggest, at the end of the regulations to cover cases not specially spelled out.

The CHAIRMAN: The section will stand until the officials of the Department of Finance have had time to work out an amendment which is agreeable to them and which they think will be suitable to the committee.

Section 19?

Mr. NOSEWORTHY: Before you go on to Section 19 I wonder if one of the officials could tell us just by what process the Governor in Council would determine that the individual should be charged for the whole or part of the service rendered? Just what is the process by which the Governor in Council would arrive at that decision?

Mr. CLARK: Well, I find it a little difficult, Mr. Chairman, to answer that question—just how the Governor in Council’s mind would work there. I would think what would have to be done would be to consider a number of categories of services that are rendered where the individual or the corporation receiving the service, is getting a definite monetary or financial benefit or advantage; and then lay down in a specified category of case a specified certain charge, a specific quantum of money, shall be paid, and in other cases the charge shall be based on certain factors, e.g. on the cost of performing the service or something of that sort.

I think it is a little difficult to go beyond that, Mr. Noseworthy, at this moment.

Mr. NOSEWORTHY: The Governor in Council would obviously have the advice I presume of somebody who was definitely concerned with the practice?

Mr. CLARK: Yes. We would have to consider various types of cases and try to classify them and submit to the Governor in Council, or rather to the minister in the first place and then to the Governor in Council, a list of the kind of cases that needed to be dealt with, making some suggestions as to the basis that might be established.

Mr. NOSEWORTHY: Would the Governor in Council not be inclined to accept the recommendation that came in the first place from someone who is directly associated with the particular problem?

Mr. CLARK: I think they would be inclined to do so: For instance, where the Mines Branch of the Department of Mines and Technical Surveys recommends through its minister to council that the fee for the kind of service they perform should be determined on such and such a basis, the Governor in Council would obviously be inclined to accept that advice unless they saw some very obvious defects in it.

Mr. NOSEWORTHY: Are there any safeguards in that process against favouritism to particular individuals?

Mr. CLARK: Well, on this basis "by regulation" you would lay down terms which would apply to everybody coming within the specified classes. I do not think there would be any chance for favouritism.

The CHAIRMAN: Shall section 8 carry?

Agreed.

The CHAIRMAN: Section 19?

19. (1) Where money is received by a public officer from any person as a deposit to ensure the doing of any act or thing, the public officer shall hold or dispose of the money in accordance with regulations of the Treasury Board.

(2) Where money is paid by any person to a public officer for any purpose that is not fulfilled, the money may, in accordance with regulations of the Treasury Board, be returned or repaid to that person, less such sum as in the opinion of the Board is properly attributable to any service rendered.

(3) Money paid to the credit of the Receiver General and not being public money may be returned or repaid in accordance with regulations of the Treasury Board.

Mr. MACDONNELL: In Section 19 do we not run into somewhat the same kind of problem in subsection 2: "where money is paid by any person to a public officer for any purpose that is not fulfilled, the money may, in accordance with regulations of the Treasury Board, be returned or repaid to that person, less such sum as in the opinion of the Board is properly attributable to any service rendered."

Now is that a final disposition? It cannot happen in relation to any private individual, can it?

Mr. BRYCE: Well, sir, I might say we have some cases now on patent fees or copyright fees and things of that sort where the fee is payable when the application is filed. Then, a search produces a result that the copyright cannot be issued, or something of that sort, and rather than return or remit the whole fee a portion of it is held to cover the costs involved in making a search. That has been the sort of practice that I can think of immediately, which has taken place before.

Mr. MACDONNELL: Is it practically certain that this deals with rather small things? I am not going to press the point very much.

Mr. BRYCE: Normally, yes. I think there may be cases with regard to contracts where people get specifications for a contract and they do not return them—something of that sort.

Mr. MACDONNELL: Well, it would appear from what you say that it was not important.

Mr. CLARK: It is a small matter.

The CHAIRMAN: Shall section 19 carry?

Agreed.

The CHAIRMAN: Section 20?

20. (1) Money received by or on behalf of His Majesty for a special purpose and paid into the Consolidated Revenue Fund may be paid out of the Consolidated Revenue Fund for that purpose, subject to the provisions of any statute applicable thereto.

(2) Subject to any other Act, interest may be allowed and paid from the Consolidated Revenue Fund in respect of money to which subsection one applies, in accordance with and at rates fixed by the Minister with the approval of the Governor in Council.

Mr. ASHBOURNE: What is the present rate of interest fixed by the minister for interest on these amounts that are in various funds?

Mr. CLARK: Mr. Balls is going to answer that.

Mr. BALLS: There are a number of rates of interest now, and a lot of them vary considerably from fund to fund.

Mr. ASHBOURNE: Can you give us an average?

Mr. NOSEWORTHY: Some observations here would be very useful.

Mr. CLARK: Partly the prevailing rate of interest at that time and at the time the deposit was made would be one of the factors. One other factor would be the extent to which the fund itself was likely to be used or whether it was likely to be drawn upon frequently—or whether it was likely to be left practically unused.

Mr. BROWNE: One example would be the moneys received from the province of Newfoundland—the \$20 million received there, and the interest?

Mr. CLARK: That is covered by the terms of union, specifically—2½ per cent I think.

Mr. ASHBOURNE: Take any particular instance—the fund of the Unemployment Insurance Department. Is that covered in this section?

Mr. CLARK: The funds of the unemployment insurance branch are invested by an investment committee in securities of the government of Canada. Normally there is only a very small balance of cash maintained.

Mr. BALLS: I can cite a few cases here to show you some of the variations. We allow 5 per cent and 6 per cent on Indian trust funds.

Mr. CLARK: They go back a great many years—back to the nineteenth century.

Mr. BALLS: The George V Silver Jubilee Cancer Fund for Canada, 3 per cent. That is on page 213 of the public accounts, under appendix No. 7, interest on public debt.

Mr. ASHBOURNE: What about the funds that are held by the custodian of enemy property?

Mr. BALLS: Those are not held in the consolidated revenue fund.

Mr. ASHBOURNE: They are held by the Secretary of State Department?

Mr. BALLS: By the custodian of every property.

The CHAIRMAN: In a special account.

Mr. BALLS: In a special account outside of the consolidated revenue fund.

Mr. FRASER: It would not cover income tax overpaid and interest paid out on it, or would it cover that?

Mr. BALLS: No, it does not.

The CHAIRMAN: Shall section 20 carry?

Carried.

Section 21.

Where the Senate or House of Commons, by resolution or pursuant to any rule or standing order, authorizes a refund of public money that was received in respect of any proceedings before parliament, the minister may pay the refund out of the consolidated revenue fund.

Mr. FRASER: Could Mr. Clark give us an example of this, on 21?

Mr. SINCLAIR: Remission of fees in Senate divorce cases.

Mr. FRASER: That would be about the only one, is it? I cannot think of any outside of that.

Mr. CLARK: Fees paid in respect of private bills I suppose.

Mr. FRASER: Oh, yes.

The CHAIRMAN: Shall section 21 carry?

Carried.

Section 22.

22. (1) The Governor in Council, on the recommendation of the Treasury Board, whenever he considers it in the public interest, may remit any tax, fee or penalty.

(2) A remission pursuant to this section may be total or partial, conditional or unconditional, and may be granted

- (a) before, after or pending any suit or proceeding for the recovery of the tax, fee or penalty in respect of which it is granted,
- (b) before or after any payment thereof has been made or enforced by process or execution, and
- (c) in the case of a tax or fee, in any particular case or class of case and before the liability therefor arises.

(3) A remission pursuant to this section may be granted

- (a) by forbearing to institute a suit or proceeding for the recovery of the tax, fee or penalty in respect of which the remission is granted,
- (b) by delaying, staying or discontinuing any suit or proceeding already instituted,
- (c) by forbearing to enforce, staying or abandoning any execution or process upon any judgment,
- (d) by the entry of satisfaction upon any judgment, or
- (e) by repaying any sum of money paid to or recovered by the Minister for the tax, fee or penalty.

(4) Where a remission is granted under this section subject to a condition, and the condition is not performed, it may be enforced, or all proceedings may be had as if there had been no remission.

(5) A conditional remission, upon performance of the condition, and an unconditional remission, have effect as if the remission was made after the tax, fee or penalty in respect of which it was granted had been sued for and recovered.

(6) No tax paid to His Majesty on any goods shall be permitted by reason only that after the payment of the tax and after release from the control of customs or excise officers, the goods were lost or destroyed.

(7) Remissions granted under this or any other Act may be paid out of the Consolidated Revenue Fund.

(8) A statement of each remission of one thousand dollars or more granted under this section shall be reported to the House of Commons in the Public Accounts.

(9) Where a penalty imposed by any law relating to the revenue has been wholly and unconditionally remitted pursuant to this section, the remission has the effect of a pardon for the offence for which the penalty was incurred, and thereafter the offence has no legal effect prejudicial to the person to whom the remission was granted.

(10) In this section "tax" includes any tax, impost, duty or toll payable to His Majesty, imposed or authorized to be imposed by any Act of Parliament, and "penalty" includes any forfeiture or pecuniary penalty

imposed or authorized to be imposed by any Act of Parliament for any contravention of the laws relating to the collection of the revenue, or to the management of any public work producing toll or revenue, notwithstanding that part of such forfeiture or penalty is payable to the informer or prosecutor, or to any other person.

Mr. FLEMING: On section 22, subsection 1. What is it that gives rise to the proposed amendment?

Mr. CLARK: There are cases where, say, there is an application under the Companies Act for incorporation, and the application is subsequently withdrawn. There are a number of other cases of that kind of thing where it seemed just as fair, logical and appropriate to allow for a remission of a fee in whole or in part as the remission of a tax.

Mr. FLEMING: In the case you mention, is there any refund made now, Mr. Clarke?

Mr. BALLS: I think, Mr. Chairman, that in some cases we have received opinions from the Department of Justice that once a payment has been made there has been no authority to make the refund, and this provision is to permit a remission to be made by the Governor in Council in such cases.

Mr. FLEMING: To be followed by the refund.

Mr. FRASER: On section 22 (4), that would cover drawbacks, duties, excise tax on goods coming into Canada?

Mr. CLARK: Yes, any one of those things.

Mr. FRASER: What else could it cover?

Mr. BALLS: Well, Mr. Chairman, the sort of things that is intended here is to cover the case of the remission of a forfeiture, say, of a car, in which the condition to be fulfilled might be the paying of the storage charges which have been incurred by the crown in holding the car for that period.

Mr. FRASER: Under seizure?

Mr. BALLS: When it is under seizure.

The CHAIRMAN: Forfeiture or seizure, both.

Mr. BALLS: Yes, that is the type of condition that is contemplated here.

Mr. MACDONNELL: What, exactly, is a tax remission? For instance, if someone has a discussion with the Department of National Revenue and, as a result, his original tax is scaled down, perhaps for one reason or another, perhaps because they decide he is not in a position to pay the whole of it—we understand there are cases where adjustments are made. Now, is that a tax remission?

Mr. BRYCE: Perhaps I might say a word on that. A good many of these go from the Treasury Board to the Governor in Council. The normal changes to which you refer are changes in the settlement of an assessment, but those are not remissions, of course. The remission is when there is no question about what the tax is; it has been assessed, and, for reasons that the government consider to be in the public interest, a portion of it is remitted.

Mr. MACDONNELL: So, in a case of that kind the Governor in Council would lessen the amount of the tax reported, I presume, from the Department of National Revenue. Is that correct, Mr. Clark?

Mr. CLARK: Yes, sir.

Mr. MACDONNELL: I see that it is proposed under subsection (8) that a statement of each remission of more than a thousand dollars shall be reported to the House of Commons in the public accounts. Have reports of such remissions as that been made in the past?

Mr. CLARK: Yes, sir, the Auditor General has reported those in his report each year.

The CHAIRMAN: We passed over such items in the last three years in a lump sum, and at the time there were no questions asked on any given items but there could have been. Last year and the year before we passed these remissions.

Mr. SINCLAIR: There are three pages of them in this year's accounts.

Mr. FRASER: That would cover an article that was brought into the country under a certain item of the tariff and then the person said it should have been in some different item, and there would be a difference in favour of the importer?

Mr. CLARK: Yes, that would be one type of case, but the most common type of case is things that are brought into the country for a few months, say a piece of machinery, brought in to do a specified job then taken out again. In such a case the government will remit all but a certain fraction of the duty.

Mr. FLEMING: I notice in subsection (1) the word "tax" and the word "penalty" are defined, but the new word "fee" is not defined.

Mr. HENRY: We thought that that was quite clear. The other definitions were put in because the Consolidated Revenue and Audit Act expressly mentions duties, tolls, imports and forfeitures and we wished to make it clear that we are not now taking these out. But I think the word "fee" was really intended to cover the sort of things that have been mentioned, patent application fees, fees for incorporating companies, and that sort of thing, which I think are clearly designated as fees. A charge to be paid for doing something rather than a duty or toll or impost.

Mr. FLEMING: You are satisfied, in the absence of any definition in the whole Act, to have "fee" construed as designating what are called fees in other Acts.

Mr. HENRY: It is possible that in some other Act it might not be called a fee. It might say that a charge is payable for a certain thing, but, in effect, it would be a fee. I do not think there is too much trouble in finding out what a fee means, and therefore, we did not think it was necessary to define it.

Mr. FLEMING: I do not think I can share your confidence. It is important in statutes of this kind, when you get onto words like "taxes", "fees", and "imposts", that they should not be susceptible of ambiguity or a variety of interpretations.

Mr. HENRY: That is true, but we had a fairly full discussion with the drafting people in the course of setting this section up as to whether we should define "fee", and the consensus was that it was sufficiently clear to stand on its own feet, but the other two had to be in there because, in essence, they had been defined in the present Act.

Mr. FLEMING: I hope you are right.

Mr. MACDONNELL: What is the meaning of subsection (6), goods being lost or destroyed?

The CHAIRMAN: Where do you find that?

Mr. MACDONNELL: Subsection (6) of section 22.

"No tax paid to His Majesty on any goods shall be remitted by reason as only that after the payment of the tax and after release from the control of customs of excise officers, the goods were lost or destroyed."

Mr. CLARK: That is pretty much the corresponding section in the present Act, except that it is not clear in the present Act that the loss or destruction involved must occur after the release from control of the customs or excise officers. Presumably the goods might be burned or destroyed in some way or other. A person bringing in the goods might come back to the department and put a compassionate case, let us say, for remission.

Mr. MACDONNELL: But this legislation does not deal with compassionate cases, surely?

Mr. CLARK: No, but this is a clause that has been in the law for a long time and this just makes it clear that this will apply henceforth—that no tax paid to His Majesty on any goods shall be remitted by reason only that after payment of the tax and after release from the control of customs or excise officers, the goods were lost or destroyed.

Mr. MACDONNELL: If you had said “after payment of the tax and before release”, I would understand it.

Mr. CLARK: Well, the tax should be paid back in that case, but this is to prohibit the Governor in Council providing for a remission after the goods had been released into the importer's hands.

Mr. SELLAR: I might illustrate this a little, because you have been talking about taxes. I imagine the departmental officers will tell you this provision originated at the request of National Revenue. When malt and various things are taken into the breweries, they go in under bond, and duty is paid, but all is not made into beverages, some of it goes into vinegar and some of it goes to waste; this is while it is under the control of the department. There is no risk of double duty being paid as long as it is inside, but the problem they faced in the past—I will give you a specific case on which I made a report to this committee two or three years ago. A company imported a very special item in the form of strips of copper. I think they were imported to make a special boiler in connection with a pulp manufacturing apparatus, and in handling it they cut it the wrong way and it became useless, and they had to bring in another one from the United States. They asked for remission of the duty on the one they brought in and spoiled themselves. Now, this eliminates that sort of thing. It is essentially in connection with the operation of the distilleries and breweries, that is what the National Revenue is after, because double taxation was resulting under the old plan.

Mr. FULTON: May I ask Mr. Clark what is the purpose, the effect of subsection (5)—making it take effect as though it had been granted after it has been paid in full?

Mr. HENRY: The only effect of that is to make it clear that all liability at any time incurred by the person to whom the remission is made has been discharged. It is really just a carrying out of the suggestion that once His Majesty has exercised the prerogative of remission, if you are to relate that to an offence, the offence would be deemed never to have been committed. This is not quite couched in those terms but that is the principle.

Mr. FULTON: Just to make sure I understand this, it is as though a tax which otherwise had been due and payable were remitted before payment, the effect of which is to make it as though it had been paid.

Mr. HENRY: Yes, that would be one example. Your example would be correct. It would be deemed to have been paid and paid back. The idea of remission is to forgive the offence or to suspend the penalty.

Mr. FULTON: I can see the purpose in that aspect. Let me ask you this: Does that ever give rise to other complications?

Mr. HENRY: No, I do not think it does because the Act in its present form is quite clearly drafted to indicate that the person is deemed not to have incurred a penalty, or to have become liable to make payment. He is completely discharged, so there is no possibility of recovering that debt from him again.

The CHAIRMAN: Does section 22 carry?

Carried.

Does section 23 carry?

23. (1) The Governor in Council, on the recommendation of the Treasury Board, may, if he considers it in the public interest, extinguish, or delete from the accounts without extinguishing, in whole or in part, any obligation or debt due to His Majesty or any claim by His Majesty,
- (a) that does not exceed one hundred dollars and has been outstanding for five years or more, or
 - (b) that does not exceed one thousand dollars and has been outstanding for ten years or more.

(2) The obligations, debts and claims deleted from the accounts or extinguished under this section shall be reported in the Public Accounts.

Mr. WRIGHT: Subsection (b): there is a remission of \$1,000 or more granted under this section, and it will be reported to the House of Commons through the public accounts. I noticed in the public accounts this year that there are some fairly heavy remissions for certain oil companies, amounting to several hundreds of thousands of dollars. Is that for equipment which is brought in for drilling purposes?

The CHAIRMAN: The public accounts are referred to us and I think at the next session we can go into them thoroughly.

Normally the public accounts would come to us in January or February. I do not mind any question which touches on a matter of principle dealing with the Act but would not like to accept questions that concern public accounts until we have concluded our study of Bill 25.

Mr. SINCLAIR: That is the reason for bringing them in and sending them back. They pay 1/60 of the duty for each month. And if they are in, let us say, for five months, they will pay 5/60, and then back they go.

The CHAIRMAN: If I allow questions concerning details of the public accounts to be asked at this moment, we will never finish with this bill, which is our important order of business at the moment.

Mr. FRASER: In section 23, how much is outstanding now, or have you any idea of it.

Mr. CLARK: The amount involved up to 1940 was reported on by this committee last year. As I said we intend to include an item in the estimates for the write-off of these debts next year. If you wish to have that information brought up to date I think we will have to get the figures worked up for you.

Mr. MACDONNELL: I would not suggest any increase of power to the executive at all, but it does seem to me that \$100 in subsection (a) is a very small amount.

Mr. SINCLAIR: I think \$500 was the recommendation of our committee, was it not?

The CHAIRMAN: Yes.

Mr. CAVERS: Where the obligation "does not exceed one thousand dollars",—what is the purpose of the limitation?

Mr. MACDONNELL: That was done by the committee.

The CHAIRMAN: I think the committee last year recommended "from \$500."

Mr. FRASER: \$500 was recommended, I believe, last year.

Mr. FLEMING: I have been wondering about some of these amounts and also about the purpose. There is no provision for ever writing-off or extinguishing the debts which exceed \$1,000.

Mr. CLARK: We would have to go back to parliament in such cases.

Mr. FLEMING: What we did last year was simply to write the debts off the books. They were not extinguished as debts which could be collected by the crown. There is no period of limitation operating against the crown. I wonder how the amount was arrived at here, and I wonder if there is any reason in particular for extinguishing rather than merely writing off the crown from the public accounts.

Mr. MACDONNELL: Your point is to get them off books?

The CHAIRMAN: Yes, but I see Mr. Fleming's point. Last year we did not mention at all extinguishing. We meant deleting from the books and it kept the possibility of the crown collecting at any time. We would delete them from the books but we would not extinguish the obligation of the debtor to pay at any time the government found there was a possibility to collect. The word "extinguish" did not come into it.

Mr. FLEMING: This is a different thing altogether. It is one thing to write them off in your accounts, but that does not extinguish the debts. I think that fact was clearly impressed on the committee last year when the proposal was made.

The CHAIRMAN: That is right.

Mr. FLEMING: But this section does give the power to the Governor in Council to extinguish the debt.

Mr. CLARK: That is why we kept the amount pretty small.

Mr. MACDONNELL: Why do you want to extinguish it?

Mr. SINCLAIR: Take the Earl of Selkirk's account going back to 1823. What is the point of keeping that on our books?

The CHAIRMAN: Delete them from our accounts entirely. I remember the argument made was that it was cumbersome for the treasury officials and the Department of Finance officials to carry these items on the books and to review them periodically. On the other hand, if we extinguish all these things entirely, a man is not held any more to account.

Mr. HENRY: In answer to Mr. Macdonnell's question, the government is under a certain obligation or has always been so considered by the Department of Justice to continue to endeavour to collect a debt outstanding and it may sometimes be difficult because the debtor is impecunious. In the ordinary case of the private debtor who is indebted to another private citizen, he is able to take advantage of the statute of limitations, and the time within which he can get off free is six years or 20 years, according to the way the Act reads for that particular type of debt. But this does not apply to these debts, and there is an obligation to continue to review them to determine the possibility of recovery. This section is in the Act, in the first place, to permit the administration to stop making efforts to collect the debt if it is classed as uncollectable, and secondly to give the citizen to a very limited extent, the same sort of advantage he might have if he were indebted to a private citizen, by letting him off after a certain length of time if he cannot pay.

Mr. FLEMING: That was the reason given to us last year for allowing the crown to write certain accounts off the books. But it seems to me that is no justification for extinguishing them. All the statute says is that claims which are uncollected after a given period of time should be written-off. Surely this is extraordinary legislation for parliament to enact, to give power to the Governor in Council to extinguish these debts, and it strikes me that there is no case made out yet for extinguishing claims owing to the crown.

Mr. FULTON: Suppose you do not have the word "extinguish".

The CHAIRMAN: That is the main purpose of Mr. Fleming's suggestion. Take out the word "extinguish".

Mr. FULTON: If you do not have the word "extinguish" in there, do you think it is proper to suggest that you could increase the limits along the line of Mr. Macdonnell's remarks, because you would not actually be extinguishing those obligations, but merely writing them off the books. Is there any point to it? Does it become important to take away the word "extinguish," or do you suggest that we could increase the amount of the write-off?

Mr. CLARK: I think we would be prepared to drop the word "extinguish," upon condition that we would not be called upon to collect, or to try to collect.

Mr. MACDONNELL: Is that any clearer? I ask you whether the phrase "delete from the accounts without extinguishing" would meet the present problem? I suggest we leave it with Mr. Henry the thought in mind that we are going to forgive these fellows out of the goodness of our hearts. I understand that was his argument.

Mr. CLARK: We asked Justice for a careful consideration of this point to indicate what the duty of the Department of Finance and other departments would be if these were not extinguished. My impression is that Justice felt there was a continuing duty for us to follow up, and for the department to follow up, if we do not extinguish them altogether. I would ask Mr. Henry to say whether that is so or not?

Mr. MACDONNELL: Did you ask them to find an apt word which would relieve you, because you really should be relieved?

Mr. FULTON: How can you follow them up if they are not still on the books? You would not know about them.

Mr. CLARK: Oh, there are records in the various departments, memoranda on records.

The CHAIRMAN: You mean the books. What we intended last year was that they be deleted as collected assets but that they be not extinguished.

Mr. FULTON: Yes.

Mr. MAJOR: In this case you have to do one thing or the other. You do not have to do both. You have either to ask to extinguish or to delete.

Mr. CLARK: On the assumption that there is no continuing obligation to have a department follow up on such accounts, we could delete "extinguish or" in the third line; in the eleventh line we could delete "or extinguish", and then raise \$100 to \$500; also in the fourth line we could delete "without extinguishing".

Mr. BOISVERT: Why not let the section stand, Mr. Chairman?

The CHAIRMAN: We are dealing so well with it now, why can we not get rid of it? We will have so much to do tomorrow. But I am in the hands of the committee.

Mr. FLEMING: If that is agreeable to Dr. Clark and Mr. Henry, I think we should proceed. In line 3 I think we should take out "extinguishing or", and so on.

The CHAIRMAN: We cannot have any better authority than the deputy minister and his legal adviser. I know they are not the Governor in Council, but if they accept it, I think we can go on.

Mr. CLARK: And change one to five in line 6.

Mr. BROWNE: In subsection 2, the obligations, debts, and claims deleted means those obligations, debts and claims which are deleted in the current fiscal year which is under review?

Mr. CLARK: That is right.

Mr. MACDONNELL: I do not think that is clear at all. You might have to do it every year under that proviso.

Mr. FLEMING: Put the word "annual" in there.

Mr. MACDONNELL: Is that what you intend? Do you intend to deal with it every year?

Mr. CLARK: No, just once, during the year.

Mr. HENRY: What we are trying to do is to say that when you do delete it, the debt or account will be reported in the public accounts for that year.

The CHAIRMAN: We might include after the word "delete" the words "deleted in the current year".

Mr. FLEMING: Would it not suffice if you simply inserted the word "annually"?

Mr. FULTON: Or put it in the public accounts for the year in which it is deleted?

Mr. HENRY: Or say that if the obligation were deleted from the public accounts in any given year, it would be reported in the public accounts for that year.

Mr. MACDONNELL: Let us leave it to Mr. Henry.

The CHAIRMAN: Shall the clause carry with the amendment? That is, except where we leave it to Mr. Henry to give to the clerk the exact wording of subsection (2), to the effect that the obligations, debts and claims deleted from the public accounts during any year shall be reported in the Public Accounts for that year.

Now, we have reached part 3 "Public Disbursements". Part 3 includes items 24 to 40. Are there any questions on item 24?

PART III.

PUBLIC DISBURSEMENTS.

24. Subject to the British North America Acts, 1867 to 1951, no payments shall be made out of the Consolidated Revenue Fund without the authority of parliament.

Mr. FULTON: I would like to ask Mr. Henry, perhaps, whether it is quite clear that the authority of parliament is interpreted as including the authority of this statute and not to mean an authority which must be obtained each time that payment is made.

Mr. HENRY: Yes, sir. All the section says is that "no payments shall be made out of the consolidated revenue fund without the authority of parliament." That means that every time the comptroller is asked to issue a cheque he has, in some way, to relate that cheque issue to a statute. It could be a continuing statute such as this one in which there are a number of appropriations, or it could be an item in the estimates or a statute such as the "Trans-Canada Highway Act" which says you can make payments for a period of seven years.

Mr. FULTON: "The authority of parliament" would include the authority, let us say, of section 20 of this Act?

Mr. ASHBOURNE: It says subject to the British North America Act. Are there any particular exceptions?

Mr. HENRY: The only reason that was put in is that in the B.N.A. Act, in section 102 and following, the general consolidated revenue fund is set up. In that group of sections there are certain charges on the fund. I might give you one example. Section 103 says that the consolidated revenue fund of Canada shall be permanently charged with the costs, charges, and expenses incident to the collection, management, and receipt thereof, and the same shall form the first charge thereon, subject to be reviewed and audited in such manner as shall be ordered by the Governor General in Council until the parliament

otherwise provides. Section 104 deals with certain interest on provincial and public debts of some of the previous provinces such as Nova Scotia and the province of Canada. Section 105 makes the salary of the Governor General a charge upon the consolidated revenue fund. Now, in giving a legal interpretation of those sections it is not clear whether it was intended that Parliament should appropriate such payments as, say, salary of the Governor General or whether the B.N.A. Act itself was to be the only authority. If the latter, we wanted it to be clear that parliament is not required to make an additional appropriation for something which is already authorized by the B.N.A. Act. The principle is that if it is set out in the B.N.A. Act, payment does not require to be made on the further authority of parliament. Is that clear?

Mr. FLEMING: That is the principle set out there.

Mr. HENRY: The principle is that authority for payment is contained in the statute and you will see that if you will look at sections 103, 104 and 105 of the British North America Act. We wanted to be sure that we did not conflict with that in this Act.

The CHAIRMAN: Shall section 24 carry?

Carried.

Section 25:

25. All estimates of expenditures submitted to Parliament shall be for the services coming in course of payment during the fiscal year.

Mr. MACDONNELL: In section 25, "coming in course of payment", sounds awfully like just a collection of words. Could we have it defined a little more exactly? I think I know what it means. They are somewhat unusual words, unless they are usual in your terminology.

Mr. BALLS: Well, Mr. Chairman, this is a re-enactment I think word for word of the provisions in the present Consolidated Revenue and Audit Act. Our present section 3 of the Consolidated Revenue and Audit Act reads: all estimates of expenditures submitted to parliament shall be for the services coming in course of payment during the fiscal year.

Mr. MACDONNELL: Is there anything which arises there in connection with payments which are allowed by the Department of National Defence?

Mr. BALLS: Those are cash payments out of appropriations.

The CHAIRMAN: Shall section 25 carry?

Carried.

Section 26?

26. Where an appropriation is made for any purpose in any Act of Parliament for granting to His Majesty any sum of money to defray expenses of the public service for a fiscal year, no payment shall be made pursuant to that appropriation out of the Consolidated Revenue Fund unless a warrant, prepared on the order of the Governor in Council, has been signed by the Governor General authorizing expenditures to be charged against the appropriation, but no payments in excess of the amount of expenditures so authorized shall be made.

Mr. FLEMING: Mr. Chairman, I have a question on section 26. In section 24 we provide in effect that no payment shall be made out of consolidated revenue fund without the authority of parliament. Suppose the government dissolved parliament without parliament having made provision by way of appropriation Act for meeting the ordinary current expenses of the government for the six months, or the ensuing period of time before parliament could meet again after the next general election, how far can the Governor in Council go under section 26 in meeting these current expenses on Governor General's warrant?

Mr. BALLS: Mr. Chairman, section 26 does not deal with special warrants of the Governor General, it is section 28 which covers urgent expenditures not provided for. Section 28 does give the authority to the Governor in Council to authorize payments of that nature, to cover not only the urgent outlay for repair which may require to be made to a public building which had been damaged or destroyed, but also the outlay necessary for the carrying on of the public service in the event that parliament has not made appropriation for that service prior to dissolution.

Mr. FLEMING: Well, section 28 embodies new subsections 3 and 4.

Mr. BALLS: Yes.

Mr. FULTON: Mr. Chairman, could someone explain the history of section 26? Mr. Henry has just said that every time the comptroller signs a cheque he has to relate it to the authority of parliament. I was under the impression that the Governor in Council had the authority to authorize payment, providing the minister concerned was satisfied that there was authority for it.

Mr. HENRY: In answer to Mr. Fulton's question, I might say that this is really a question of preserving the constitutional position which has been in effect, well, as long as one can recall. Under this Act parliament has the control of all matters of supply. Parliament grants to His Majesty certain sums of money for the carrying out of the government services which His Majesty is required to carry out. And now, the grant of funds is to the Crown. If you will look at your Appropriation Act you will see that it is in those terms: it is a bill for the granting of certain sums of money to His Majesty. Now, the grant being to His Majesty, it should be released to various administrative officers of His Majesty. The only reason for that wording being in there is to preserve the situation in its proper aspect. His Majesty must then say to the minister of Finance: you may spend the money for these purposes.

Mr. FULTON: Then, how does it work out in practice? May I ask whether it has been the practice to have the approval of the Governor in Council with respect to each item, or how does it work in practice?

Mr. CLARK: It is an order in council and has to have the approval of the Governor in Council as a whole.

Mr. MACDONNELL: Does he have to approve of each particular item?

Mr. CLARK: No.

Mr. FULTON: It does not mean that he has to check each individual item, it means large bulk sums, does it not?

Mr. CLARK: Yes.

Mr. FULTON: Then the minister of the department can spend that in his discretion.

Mr. SINCLAIR: In the way it has been voted in the estimates.

The CHAIRMAN: Shall section 26 carry?

Carried.

Section 27:

27. Where a guarantee has been given under the authority of Parliament by or on behalf of His Majesty for the payment of any debt or obligation, any amount required to be paid by the terms of the guarantee may, subject to the Act authorizing the guarantee, be paid out of the Consolidated Revenue Fund.

Mr. WRIGHT: Could Mr. Henry give us an example of what guarantees would be paid under this section?

Mr. HENRY: Well, sir, the only one that comes to my mind at the moment is the guarantee that may be made under the Export Credits Insurance Act.

Payment of such guarantees was provided for in that Act. But our thought was that in the future you might simply have a bill providing that His Majesty may authorize, that is, the Governor in Council may authorize the minister to guarantee certain loans or securities without actually mentioning that the sums required to pay such guarantees may be paid out of the consolidated revenue fund. Now, that sort of thing may be omitted through an oversight, through somebody not thinking about it, and we thought it best to have it in the Act so that wherever a guaranteeing authority is given in statute there will always be available the authority to pay off the obligation, if we are called upon to do so.

Mr. MACDONNELL: What is the practice? In the event that the payment is found to be illegal is the minister responsible for payment of the guarantee?

Mr. HENRY: No sir. If you take the example I gave you with respect to the Export Credit Insurance Act—and a number of others—

Mr. CLARK: For instance, there is the C.N.R. Financing and Guarantee Act, and the National Housing Act.

Mr. HENRY: All those Acts are in there, but it seems tidier to have it in the Financial Administration Act.

The CHAIRMAN: Section 28?

28. (1) Where an accident happens to any public work or building when Parliament is not in session and an expenditure for the repair or renewal thereof is urgently required, or where any other matter arises when Parliament is not in session in respect of which an expenditure not foreseen or provided for by Parliament is urgently required for the public good, the Governor in Council, upon the report of the Minister that there is no appropriation for the expenditure, and the report of the appropriate Minister that the expenditure is urgently required, may order a special warrant to be prepared to be signed by the Governor General authorizing the payment of the amount estimated to be required for such expenditure.

(2) A special warrant issued pursuant to this section shall for the purposes of this Act be deemed to be an appropriation for the fiscal year in which the warrant is issued.

(3) Every warrant issued under this section shall be published in the *Canada Gazette* within thirty days after it is issued, and a statement showing all warrants issued under this section and the amounts thereof shall be laid by the Minister before the House of Commons within fifteen days after the commencement of the next ensuing session of Parliament.

(4) For the purposes of this section Parliament shall be deemed to be not in session when it is under adjournment *sine die* or to a day more than two weeks after the day the accident happened or the other matter arose.

Mr. FLEMING: Mr. Chairman, in view of the explanation given about Section 28 I can hardly bear to leave that section without commenting that apparently never again, if this section is passed, will there be the spectacle of a general election fought over the constitutional issue of the right of the government to finance through Governor General's warrant. Do you not think that will be a loss to history, Mr. Chairman?

The CHAIRMAN: I think on the other hand that it is a requirement that should be included to foresee future events.

Mr. GIBSON: It is easier for the public to understand.

Mr. MACDONNELL: This is in the terms of the old section, is it?

Mr. CLARK: No, there are three or four sections which have been added. I called attention yesterday to them. Number 3 will require the Governor in Council to publish the warrant in the *Canada Gazette* within thirty days after the issue of a warrant.

Mr. FULTON: Are they automatically reported upon in the public accounts?

Mr. CLARK: In the estimates too each year they are brought before parliament—added at the end of the supplementary estimates.

The CHAIRMAN: Shall section 28 carry?

Carried.

Are you agreeable to meet this afternoon at 3.30?

Agreed.

The meeting adjourned.

AFTERNOON SESSION

Committee resumed at 3.30 p.m.

The CHAIRMAN: Gentlemen, we were about to consider clause 29, page 10, when we adjourned. On the other hand, we left clause 18 standing, so if it is your wish we may now go back to section 18 and see if we can get an agreement on it. Mr. Clark has, I think, a suggestion on this.

Mr. CLARK: Mr. Chairman, I discussed this with our legal adviser and I mentioned it, also, to the minister briefly, and it would be O.K. from the department's point of view if the words "by regulation" were inserted before the word "prescribe" in line 6 of the section.

The CHAIRMAN: Does that meet with the approval of the members?

Mr. FLEMING: That may be an improvement; it may not go the whole way that was suggested here this morning, but it is a substantial improvement.

The CHAIRMAN: There is nothing like a good negotiated agreement.

Mr. SINCLAIR: Will you read the section as it will now be, Mr. Clark?

Mr. CLARK: Section 18 will read:

Where a service is provided by His Majesty to any person and the Governor in Council is of opinion that the whole or part of the cost of the service should be borne by the person to whom it is provided, the Governor in Council may, subject to the provisions of any Act relating to that service, by regulation, prescribe the fee that may be charged for the service.

The CHAIRMAN: Shall section 18 carry?

Carried.

Now, we are resuming the consideration of item 29. Are there any question on item 29, gentlemen?

Carried.

Shall section 30 carry?

30. (1) No contract providing for the payment of any money by His Majesty shall be entered into or have any force or effect unless the Comptroller certifies that there is a sufficient unencumbered balance available out of an appropriation or out of an item included in Estimates before the House of Commons to discharge any commitments under such contract that would, under the provisions thereof, come in course of payment during the fiscal year in which the contract was entered into.

(2) Every contract involving the payment of money by His Majesty shall be submitted to the Comptroller as soon as it is made or entered into, unless the Comptroller certifies that he does not require it.

(3) The Comptroller shall establish and maintain a record of all commitments chargeable to each appropriation.

(4) Where the Comptroller is satisfied that an agreement was entered into in order to defray an immediate expenditure that, through accident to public property or other emergency, was necessary to protect such property or to provide for such emergency, he may issue his certificate accordingly and thereupon the agreement is exempt from the operation of subsection one from the time the agreement was entered into.

Mr. FLEMING: I have a question on section 30, subsection 2, Mr. Chairman, in connection with this new provision for submission to the comptroller of contracts involving payments of money. What does that new provision rise out of?

Mr. MCINTYRE: While under subsection (1) the comptroller obviously receives contracts that involve expenditures in the current fiscal year, a contract that is entered into before the end of the fiscal year, but which does not involve a charge on the appropriation of that fiscal year, does not have to be certified, so subsection (2) is included to ensure that all contracts are filed with the comptroller unless other satisfactory arrangements are made. There are certain circumstances in the operating services where it is not convenient to duplicate your contract form so it will be on file, and in that case suitable extracts are made that are necessary for the comptroller to have in order to audit the account.

Mr. FLEMING: To what extent will this involve a departure from existing practice?

Mr. MCINTYRE: It will not depart at all, because in existing practice the requirement under the present Act was broad enough that it compels me to insist on that.

Mr. FLEMING: So you are simply legislating in terms of the existing practice.

The CHAIRMAN: Shall section 30 carry?

Carried.

Now, before we pass on to the next item, may I again express the wish stated this morning by the head reporter that all witnesses and members should speak a little louder. The questions and answers involved here are technical and one word missed may mean a lot for a reporter in transcribing his notes, and it is very important that we get accurate reporting of this committee. So, may I ask again as a great favour that everybody speak up, and slowly, especially when giving a list of statutes and laws, and so on, so that we will not miss anything.

Now, we come to item 31.

31. (1) No charge shall be made against an appropriation except upon the requisition of the appropriate Minister of the department for which the appropriation was made, or by a person authorized by him in writing.

(2) Every requisition for a payment out of the Consolidated Revenue Fund shall be in such form, accompanied by such documents and certified in such manner as the Comptroller may require.

(3) The Comptroller shall reject a requisition if he is of the opinion that the payment

- (a) would not be a lawful charge against the appropriation,
- (b) would result in an expenditure in excess of the appropriation, or
- (c) would reduce the balance available in the appropriation so that it would not be sufficient to meet the commitments charged against it.

(4) The Comptroller may transmit to the Treasury Board any requisition with respect to which he desires the direction of the Board, and the Board may order that payment be made or refused.

(5) Where the Comptroller

- (a) decline to make a payment,
 - (b) disallows an item in an account, or
 - (c) refuses to give a certificate required by this Act,
- the appropriate Minister of the department concerned may report the circumstances to the Treasury Board for its decision, and the Board may confirm or overrule the action of the Comptroller and give such directions as are necessary to carry out its decision.

(6) Whenever the Comptroller is of the opinion that a doubt exists as to the legality or otherwise of a proposed charge to an appropriation provided for the expenses of the Houses of Parliament or the Library of Parliament, he shall report forthwith to the Minister who shall draw the matter to the attention of the appropriate Select Standing Committee and it shall decide.

(7) Where, in respect of any contract under which a cost audit is required to be made, the Comptroller reports that any costs or charges claimed by the contractor should not in the opinion of the Comptroller be allowed, such costs or charge shall not be allowed to the contractor unless the Treasury Board otherwise directs.

Mr. FRASER: This, Mr. Chairman, I take it, refers to votes, is that right, where the department asks for the expenditure of money and, like in (c), for a certain item which, as it says here, would leave the balance so small that it would not be able to take care of the other commitments for the balance of the fiscal year. Is that what that means?

Mr. MCINTYRE: That is correct.

The CHAIRMAN: Any other questions or comments on section 31?

Shall the section carry?

Carried.

Now we come to item 32.

32. No payment shall be made for the performance of work or the supply of goods, whether under contract or not, in connection with any part of the public service, unless, in addition to any other voucher or certificate that is required, the deputy of the appropriate Minister or other officer authorized by such Minister certifies

- (a) that the work has been performed or the material supplied or both, as the case may be, and that the price charged is according to contract, or if not specified by contract, is reasonable, or
- (b) where a payment is to be made before completion of the work or delivery of the goods, that the payment is in accordance with the contract.

Mr. FLEMING: A question on 32. You are adding (b) to the existing section. Are you satisfied that this is going to ensure an adequate safeguard on contracts that involve progress payments? I point out that my question arises

out of an inquiry made by this committee in the year 1947, when we inquired into the Veterans Land Act administration in Windsor and elsewhere, and we found in some cases that the progress payments had been made far in advance of the progress of the work.

The CHAIRMAN: You mean, they had not retained or kept back enough money for contingencies?

Mr. FLEMING: Yes, the payments were actually in advance of the work and, secondly, there had not been any hold-back, which is usually 15 or 20 per cent, and, further, in some cases the entire contract price had been advanced before the work was finished.

The CHAIRMAN: I do not want to contradict you, but it was before the value of the work was certified. The work was finished, I thought, but had not been certified as being of good value, and it developed later it was in poor condition.

Mr. FLEMING: I think it went further than that. We found some cases where the full contract price had been advanced and there had been no completion of the work.

The CHAIRMAN: I do not recall that, but it may be so.

Mr. FLEMING: I wonder if some attention has been given to tightening up a section like that so there will not be any recurrences of that type?

Mr. McINTYRE: We depend on the human element. The supervising engineer or the supervising inspector is the one on which we must rely for a proper certificate of the value of the work done from time to time as progress is made. We urge in certifying that the value be more than has actually been incorporated into the job. I think it was a mistake not to have had a hold-back on those contracts, because one of the purposes of a hold-back is to ensure against that very thing, but on these smaller contracts, like the building of houses, the ease with which you can hold back 15 per cent and still make it possible for the contractor to continue on and do the work does not stack up the same as when you are dealing with a large construction firm.

Mr. FLEMING: I can appreciate that, but the details of the administration are not before us today. The problem before us today is, whether thought has been given to making the language of this section just as tight as possible to facilitate a strict administration.

Mr. McINTYRE: I cannot see how we can legislate to cover an infrequency like I describe. If the officer charged with the responsibility does err in estimating too much value for work done, certainly we are going to pay out more in advance than we should.

Mr. FLEMING: Is it possible for a payment to be made in a situation like that without receiving the progress certificate by the inspector?

Mr. McINTYRE: No, sir, all progress claims have to be supported by certificates of inspecting officers. Taking our Public Works contracts, in every case the clerk of works, or whoever is charged with that responsibility on behalf of the department must certify, write his certificate on the progress claim before it will be accepted and paid.

The CHAIRMAN: Would you mind speaking a little louder, please? Shall section 32 carry?

Carried.

Section 33, shall the section carry?

33. (1) Every payment pursuant to an appropriation, except a payment made under subsection two, shall be made under the direction and control of the Comptroller by cheque drawn on the account of the Receiver General or other instrument, in such form and authenticated in such manner as the Treasury Board directs.

(2) Where an instrument issued under subsection one is presented by a bank to the Receiver General for payment, the Receiver General, or an officer authorized by him, may pay the instrument out of the Consolidated Revenue Fund.

Mr. FRASER: Well, it says, "by cheque drawn on the account of the Receiver General or other instrument—"; what do they mean by that "other instrument"? You do not have drafts drawn, do you?

Mr. McINTYRE: We sometimes use what they call warrants. An example of the use of a warrant is where it has been used in the payment of hog premiums to facilitate the handling of those small transactions. The warrants are right in the plant by the inspector of agriculture and then are subsequently redeemed on the strength of a certificate and it goes direct to us. These warrants are cashed in the bank after being sent out to the farmer and we redeem them and reconcile them with the certified copies.

Shall the Section carry?

Carried.

The CHAIRMAN: Sections No. 34 and No. 35, shall they carry?

Carried.

No. 36.

36. (1) The Treasury Board may make regulations authorizing the making of accountable advances chargeable to the appropriation for the service in respect of which the advance is made.

(2) An advance for which an accounting has not been made at the termination of the fiscal year in which it was made shall be repaid or accounted for within thirty days thereafter or within additional number of days, not exceeding thirty, as the Comptroller may fix in any particular case or class of case.

(3) The Comptroller may recover any accountable advance or any portion thereof that is not repaid or accounted for as required by subsection two out of any moneys payable by His Majesty to the person to whom the advance was made.

(4) Every accountable advance that is not repaid or accounted for as required by this section shall be reported in the Public Accounts.

Mr. FLEMING: In subsection 1, Mr. Chairman, may I ask what type of regulation is contemplated here, made by the Treasury Board? This is a new clause.

Mr. BRYCE: Well I would say regulating the purposes for which accountable advances might be made and the nature and detailed form of accounting to be made for them. We have, of course, elaborate regulations as to the substance, for example, of travelling expense claims which are really separate from this. These would be regulations, as I visualize them, stating under what circumstances accountable advances may be made, whether for travel, for removal purposes or as in the case of certain officers being sent abroad who may require special clothing for work in tropical climates and they may be given an advance there which is recoverable from their allowance—things of that sort, and as I would visualize it these regulations would cover the purposes and the nature of the accounting for them.

Mr. FLEMING: There may be a point in subsection 4, Mr. Chairman, which is quite similar to that raised this morning in another section, one providing that the report in the account shall be in the year of the advance and this question of making the report correspond with the year in which the advance was made. It is just a question of draftsmanship. No doubt the intention is clear.

Mr. BRYCE: Would it not be an advantage here to have recorded an advance that is outstanding even though it had been made in a previous year?

Mr. FLEMING: Is that the intention here?

Mr. BRYCE: As I understand it, it was the ones that were still outstanding.

Mr. McINTYRE: If we have an advance which was reported, say, in a previous year and still remains unaccounted at the end of the succeeding year it also remains unreported.

Mr. FLEMING: Well, if that is the intention—

Mr. McINTYRE: Not just confining the advance to that made in that year.

Mr. WRIGHT: In subsection 3 it states:

The comptroller may recover any accountable advance or any portion thereof that is not repaid or accounted for as required by subsection 2 out of any moneys payable by His Majesty to the person to whom the advance was made.

Would that apply in the case of a returned man who is building his own home under the Veterans' Land Act and who had got advances? Could that be taken out of his pension?

Mr. McINTYRE: I think I am correct, Mr. Wright, in saying that we are not free to make recoveries from government pensions.

Mr. WRIGHT: This would not override that provision in the Pensions Act?

Mr. McINTYRE: No, sir.

Mr. WRIGHT: Would it be recoverable out of old age pensions?

Mr. McINTYRE: Now, I have not been faced with that problem yet, but I should think it would under the legislation as I see it.

The CHAIRMAN: Could we get a definite answer on that? Is it recoverable?

Mr. HENRY: Yes, I believe it would be recoverable from the old age security pension.

Mr. WRIGHT: Children's allowance?

Mr. HENRY: Yes.

Mr. HARKNESS: Or family allowance?

The CHAIRMAN: Shall the section carry?

Mr. WRIGHT: It seems to me that is going pretty far.

The CHAIRMAN: Especially if deducted from the children's allowance.

Mr. SINCLAIR: You cannot do anything with family allowances, can you?

Mr. WRIGHT: Well, they have just said they could.

The CHAIRMAN: I cannot see the good in that policy. Could we get an answer for the record, please?

Mr. HARKNESS: That is what he said.

The CHAIRMAN: Could we get an answer to Mr. Wright's question?

Mr. HENRY: The answer to Mr. Wright's question is yes but you must bear in mind that the children's allowance is paid to the mother and it is not likely that the mother would have an advance from the Treasury.

Mr. WRIGHT: Is not the husband's debt a part of the debt of the mother in some provinces?

Mr. HENRY: No. If the husband received an advance you cannot recover it out of something that is payable to his wife.

Mr. SINCLAIR: But even more than that isn't the allowance paid to the mother on account of the children?

Mr. FLEMING: For the benefit of the children.

Mr. SINCLAIR: For the maintenance and benefit of the children.

Mr. WRIGHT: But it is recoverable out of old age security?

Mr. HENRY: Yes, sir, if the person who gets the old age security is the one who received the advance and did not repay it.

Mr. RICHARD (*Ottawa East*): I always understood that all those payments were inviolate, that you could not touch them, and I think that was the whole purpose when that legislation was made by parliament—that no one would ever touch them, either an old age pension or the family allowance.

Mr. FLEMING: The legislation so provides.

Mr. BLUE: There was provision made in the Act for that just a year or so ago.

The CHAIRMAN: Does it carry?

Carried.

Mr. WRIGHT: Under protest if it carries.

Mr. FLEMING: There is no suggestion of over-riding the provisions of those Acts which have been referred to, that the payments are not subject to attachment or garnishee?

Mr. BOISVERT: But if the payment is made to someone else who is not entitled, I think the government is entitled to recover.

Mr. FLEMING: Oh, yes.

Mr. BOISVERT: But the ones who are entitled to get the payments I understood from the Act there will be no recovery from them?

Mr. FLEMING: The Act so provides.

The CHAIRMAN: Then, let us get it cleared up. Can we or can we not recover it from old age pension cheques or from family allowance cheques; we would like to know for the record?

Mr. HENRY: Subject to my looking up those two Acts again to make sure they are not worded in any other way, I would say the recoveries can be made because those provisions to which Mr. Fleming refers, relate to garnishee and attachment proceedings. That is not what is referred to in the Debts due to the Crown Act. That Act can be applied even though garnishee proceedings cannot be taken. But I will look and make sure and report back.

Mr. WRIGHT: The point I want to raise, too, is if the Old Age Pension Act or the Family Allowance Act were amended, which would be the over-riding Act—this one or the amendment which might be made in those Acts to guarantee that those funds could not be taken?

Mr. HENRY: Well, sir, the general principle is that if you have a general Act and a particular statute standing beside it, the general one dealing with general matters such as this one does, and the particular statute dealing with a particular type of payment such as the Old Age Pension Act, then the provisions in the particular Act would override the general Act.

If it was expressly stated there would be no doubt about it. You do have difficulty sometimes where the wording is not too clear, but if the particular Act were to say that the debts due to the Crown Act do not apply to a payment made under that Act, then you cannot recover under the debts due to the Crown Act.

Mr. WRIGHT: Then, the proper proceeding would be if parliament wanted to protect those two particular groups would be to bring in amendments to those Acts rather than to try to recover them in this?

Mr. HENRY: That is right. We find such a provision as that under the War Service Grants Act. If I remember correctly, you could not recover out of the veteran's gratuity—you could not recover a debt owing for taxes or something like that.

Mr. RICHARD (*Ottawa East*): I suggest that you read Mr. Martin's speech when he introduced that amendment, where he said nobody would be able to touch it.

Mr. WRIGHT: But his speech is not law.

The CHAIRMAN: Shall section 36 carry?

Carried.

The CHAIRMAN: Shall we agree on section 37?

Carried.

Section 38?

38. It is a term of every contract providing for the payment of any money by His Majesty that payment thereunder is subject to there being an appropriation for the particular service for the fiscal year in which any commitment thereunder would come in course of payment.

Mr. FLEMING: A question on 38, Mr. Chairman. I can see the desirability of a provision like this from the point of view of maintaining parliamentary control over expenditure, but I am wondering how it is going to affect the rights of private persons contracting with the Crown. Now, this seems to say that even though it is not made an express term of a contract entered into by the Crown with a private person, nevertheless, by this legislation a term is imported into that contract which might work very seriously to the disadvantage of that person if he did not have the good fortune to be aware of the law. It may not be that that is the intention of the Act, but it seems to me that that is a consequence that might flow from it.

Mr. HENRY: In answer to Mr. Fleming's question, I might say that the purpose of this section is to prevent payments a roundabout way, as by the judgment of a court, that could not be made under the provisions of the Supply Act which has released the money to the Crown.

If I might give you an example. It is possible that you might have a valid contract entered into by a minister under the proper authority to do a certain work, but that parliament, for its own reasons, had refused to vote the supply for that service; in other words, they had removed the item from the estimates; and if the contract is valid it would be possible without this provision for the contractor to proceed in the Exchequer Court against the Crown and obtain a judgment for the amount that is owing to him. In that case the Crown would have to pay the judgment out of unappropriated money whether there is any specific money voted for that service or not. The purpose of this amendment is to obviate that; in other words, it is a parliamentary control of the money so that a person cannot go to the court and get money which parliament has deprived the minister of the power of paying without going to court.

Mr. CAMPNEY: Why should not parliament deal with the minister and not with the third party? If a man gets a judgment from a court of record, the Exchequer Court, somebody ought to be liable on the judgment.

Mr. HENRY: I might say that the practice in England is something like this, that they provide in their annual payments an amount to meet judgments, whereas we have a provision which says you may always pay a judgment of the Exchequer Court, but it is not a matter of disciplining the minister because if the minister has instructions from His Majesty to enter into a contract, that contract is valid because His Majesty is the principal as some of you might be a principal and His Majesty's representative is his agent as in the case of a minister entering into a contract on behalf of the Crown and you cannot destroy

that because it is a fundamental principle, but what you do is to say that if a contract is entered into and parliament does not wish money to be spent for that purpose, then it is a term of that contract that no payment is to be made unless the supply is voted, so that the contractor cannot get his judgment because the Exchequer Court will have to say that there is nothing payable.

Mr. CAMPNEY: Is that put in all contracts?

Mr. HENRY: No, it is giving the term to every contract by this bill.

Mr. CAMPNEY: But what contractor would know that?

Mr. BRYCE: I think it is a normal term in almost every contract.

Mr. HENRY: I think most contractors are familiar with it. This is merely a present condition.

Mr. FLEMING: This is the sort of thing which, if it is to be the law or is to be a term of the contract, ought to be written into the contract. It seems to me there cannot be any objection to that term if it is written into the contract in every case, but I have a very strong aversion in respect of legislation which simply takes every government contract and says whether there is such a clause in it or not it will be deemed that this clause is written in there, whether people contracting with the government know anything about it or not.

I am just wondering and Mr. Campney, apparently, is too, about the words, "it is a term of every contract". Now, we want first to see, it is true, all parliamentary control over expenditures strictly maintained, and we do not want to set up anything that will permit it to be circumvented in any way, but why do we have to choose a means which involves writing into contracts between His Majesty and His contractors provisions that are not written in?

Mr. CAMPNEY: This could be covered if a department entering into

The CHAIRMAN: Mr. Bryce will answer the question.
contracts were required and put the clause in?

Mr. BRYCE: Might I say this matter has come up a number of other times. I have been informed by lawyers that this is in fact a condition under the common law normally in regard to contracts, but it can be overcome through suit in the Exchequer Court. Now, Mr. Henry could speak better to that, but one of the reasons that it was suggested here was to make quite clear to contractors that there was that sort of doctrine applicable.

Mr. WRIGHT: Should not we make it then:

"There shall be a term in every contract providing for the payment . . ."

The CHAIRMAN: I think it would be more fair to all the contractors that it should be included in every contract.

Mr. WRIGHT: If that were amended to read:

"There shall be a term in every contract providing for the payment . . ."

Mr. FLEMING: Put the onus on the man who writes the contract.

Mr. BRYCE: Might I say a word on that? The problem I can see in that is, where the Crown becomes party to small contracts in a normal commercial form, an offer for sale, or something of that kind, where the Crown does not draw up the form of the contract and in that case the Crown may by entering into it simply be accepting the normal terms that the seller offers.

Mr. McIntyre may be able to speak better than I on that; he has seen more contracts than I have, but I think that is frequently the case, and to put the clause in that form might make it exceedingly awkward for us to engage in ordinary small contracts in the usual form.

Mr. FLEMING: That disquiets me all the more. If it appears that there are many contracts written in such form that the clause is not being expressly

inserted that indicates how many more contracts there are going to be where by this legislation, we are importing a term which is not known to the contracting party at the time.

The CHAIRMAN: I also feel that every contractor who would enter bona fide into a contract with the government will not necessarily have been cognizant of this article and might suffer prejudice himself if the court decides that he is right, so I am inclined to believe it is slightly arbitrary myself.

Mr. FULTON: I would be interested in knowing whether there have ever actually been cases of contractors entering into contracts, doing the work in advance of an item of payment and then finding parliament refuses to authorize payment for the work. Have you ever had cases like that? In the event of passing an Act in parliament refusing, have you ever had a case approaching that?

Mr. McINTYRE: Not to my knowledge.

Mr. CLARK: Mr. Chairman, I suggest that you let this stand and we will consider it with the minister and the legal officers again.

The CHAIRMAN: No. 38 will stand. Section 39.

39. The Governor in Council may make regulations with respect to the conditions under which contracts may be entered into and notwithstanding any other Act,

- (a) may direct that no contract by the terms of which payments are required in excess of such amount or amounts as the Governor in Council may prescribe shall be entered into or have any force or effect unless entry into the contract has been approved by the Governor in Council or the Treasury Board, and
- (b) may make regulations with respect to the security to be given to and in the name of His Majesty to secure the due performance of contracts.

Mr. FRASER: Well, this would deal, Mr. Chairman, mostly with the Department of Public Works, wouldn't it?

The CHAIRMAN: Yes. It is related to a section that is contained in the new Public Works Act.

Mr. BRYCE: Not necessarily within Public Works but many departments.

Mr. FRASER: But mostly with the Public Works Department?

Mr. BRYCE: Oh, the Department of Transport and Defence Production—there are a great many departments now who have works contracts of one sort or another.

Mr. RICHARD (*Ottawa East*): This will be notwithstanding those Acts? Whatever the Public Works Act says this could override it?

Mr. BRYCE: The authority to override other Acts only relates, sir, to subsections (a) and (b) requiring a contract of a certain size to be seen by the Governor in Council of the Treasury Board and, secondly, the making of regulations with respect to the security to be given in regard to contracts. It is only in those two respects that it overrides any other Act.

Mr. SINCLAIR: And the new Public Works Act that Mr. Fournier is bringing forward will coincide with this?

Mr. BRYCE: Yes.

The CHAIRMAN: I have been asked to let this stand, because I understand representations are being made to the Department of Public Works in regard to several items in this bill and negotiations have been going on between these parties and the Department of Public Works that may have repercussions on this, so I agreed that we would let 39 stand for the time being, at least only temporarily, so 39 stands.

Section 40.

Carried.

Now, we get into Part IV, public debts—articles 41 to 56 inclusive. Section 41—any comments?

41. No money shall be borrowed or security issued by or on behalf of His Majesty without the authority of Parliament.

Mr. FULTON: I notice the comment there, “new”. It is surely not a new commission, is it?

Mr. CLARK: That has always been the situation, but we thought it best to lay down in law that fundamental principle just in the first clause of the public disbursements section. We laid down the fundamental principle in regard to expenditure that no expenditure can be made without the authority of parliament. For the same reason we thought it was wise to be complete and say that no borrowing shall take place except under the authority of parliament. It has I believe never been reduced to legislation before.

Carried.

The CHAIRMAN: Section 42.

Carried.

Section 43.

Carried.

Section 44.

Carried.

Section 45.

45. An annual statement of all borrowing transactions on behalf of His Majesty shall be included in the Public Accounts.

Mr. FLEMING: Mr. Chairman, in 45 what is the significance of the note?

Mr. CLARK: You mean, “New, but see section 14 (3)”?

Mr. FLEMING: Yes.

Mr. CLARK: Well, in the old Act there was a requirement that all temporary loans should be reported in the public accounts. We are now providing that a statement covering *all* borrowing transactions should be reported in the public accounts. We have actually been following the practice of including a report on all borrowing transactions in the public accounts, but we are now making it a matter of law.

Mr. FULTON: Mr. Chairman, do you mind if I go back to 44 for just a moment? I assume that the borrowings under that section are of the treasury notes?

Mr. CLARK: Yes, it would be short-term borrowing. It might be a ways and means advance from the Bank of Canada on short-term treasury notes. Under today's conditions it would almost certainly be very short-term borrowing, for a few days, to get you by, say, the first or end of a month when you had big payments to make and the moneys that you were expecting would not come in until a few days afterwards.

Mr. FULTON: Then, the situation contemplated by this statute is a situation which is of a temporary nature where your authorization has not yet come from parliament or something like that?

Mr. CLARK: Yes.

Mr. FULTON: But would not the section also cover—although not primarily designed to do so—cover the case of not in the least circumstances but under conditions where we might have to go ahead on debt financing—would not this section also cover that and restrict your financing to six months?

Mr. CLARK: Yes, it would, and in such case presumably you would have to borrow long-term.

Mr. FULTON: How would you get around this section? How have you got around it in the past when it was necessary to do debt financing?

Mr. CLARK: Is there anything in the section to prevent long term borrowing?

Mr. FULTON: It says where you have not got enough in the consolidated revenue fund to meet expenditures you can only borrow on six months—

Mr. CLARK: No, but we would not necessarily be restricted to this kind of borrowing if, for instance in the Appropriation Act we took power to borrow to cover this deficit.

Mr. FULTON: The Appropriation Act would have of necessity to say “notwithstanding Section 44 of the Administration Act”.

Mr. CLARK: I am not sure whether it should have to have a “notwithstanding” clause.

Mr. HENRY: You are speaking of a clause in the Appropriation Act?

Mr. FULTON: Yes.

Mr. HENRY: That would authorize a specific loan, but you would not necessarily put in “notwithstanding” although you could.

Mr. FULTON: If the loss was for meeting a deficit, not necessarily temporary, but for meeting a deficit at the end of the year, you would not have to accept such loans with the provision of Section 44?

Mr. HENRY: Yes, but that would be the effect of such a statute—whether you put in a “notwithstanding” clause or not—because as I mentioned before in answer to Mr. Wright’s question, if you have specific authority to do a certain act that would override a general provision somewhere else.

The CHAIRMAN: Under Section 45 do I understand that all borrowings of money from private banks have to be reported in the public accounts?

Mr. HENRY: Yes, they would.

The CHAIRMAN: We subtracted a lot of things from the public accounts last year but we are adding a lot this year. All the small borrowings from day to day will have to be recorded in the public accounts?

Mr. CLARK: There are very few such borrowings. We rarely borrow from chartered banks now. Of course we issue treasury bills every two weeks—three month treasury bills—and those are always reported in the public accounts.

Mr. FULTON: May I ask Mr. Clark if there is any restriction on borrowing? Do you have to get specific authority to borrow outside of Canada now?

Mr. CLARK: Under our borrowing authorities we can borrow in Canada, the United Kingdom, the United States, or any place.

Mr. FULTON: Nothing further is required?

Mr. CLARK: No.

The CHAIRMAN: Shall Section 45 carry?

Carried.

Section 46?

Carried.

Section 47.

47. The Governor in Council may

- (a) appoint one or more registrars to perform such services in respect of the registration of loans as the Governor in Council may prescribe,
- (b) appoint one or more fiscal agents to perform such services in respect of loans as the Governor in Council may prescribe, and

- (c) fix the remuneration or compensation of any registrar or fiscal agent appointed under this section.

Mr. FLEMING: With regard to registrars and fiscal agents, are the registrars employees of the government?

Mr. CLARK: No, it is an agency relationship.

Mr. FLEMING: You do retain outside firms for that purpose?

Mr. CLARK: The Bank of Canada for instance, or the Bank of Montreal Trust Company in New York, and the Bank of Montreal in London would be our registrars.

Mr. FLEMING: Does the same apply to fiscal agents?

Mr. CLARK: Yes, the Bank of Canada, the Bank of Montreal, and the Bank of Montreal Trust Company in New York—on occasions in the past it has been the Chase National Bank in New York—in London the Bank of Montreal. The Bank of England also is the registrar for the Newfoundland issue which we have taken over. Normally, it is the Bank of Montreal in London.

The CHAIRMAN: Shall section 47 carry?

Carried.

Section 48.

48. (1) The Minister shall cause to be maintained a system of books and records.

- (a) showing all money authorized by Parliament to be borrowed by the issue and sale of securities,
- (b) containing a description and record of all money so borrowed and securities issued, and
- (c) showing all amounts paid in respect of the principal of or interest on all money so borrowed.

(2) Every fiscal agent and registrar shall annually and as often as required by the Minister give to the Minister an accounting, in such form and terms and containing such information as the Minister prescribes, of all his transactions as fiscal agent or registrar.

Mr. FRASER: In (2) of 48, Mr. Chairman, where it states: "Every fiscal agent and registrar shall annually and as often as required by the Minister give to the Minister an accounting, in such form and terms and containing such information as the Minister prescribes, . . ." and what I am trying to get at is supposing one minister says he wants the accounting in such a form and another in another form?

Mr. CLARK: The "minister" is the Minister of Finance.

Mr. FRASER: It is not the individual minister?

The CHAIRMAN: It is specified in the first part of the Act.

Mr. CLARK: When we refer to another minister it is the appropriate minister—the one responsible for the administration of the particular department.

The CHAIRMAN: Shall the section carry?

Carried.

Section 49.

49. The Governor in Council may provide for the creation and management of a sinking fund with respect to any issue of securities or with respect to all securities issued.

Mr. FLEMING: In connection with section 49 what has been the practice hitherto? Is there one sinking fund or is there separate fund for each issue?

Mr. CLARK: As a matter of fact, Mr. Fleming, we have only one sinking fund and that is the sinking fund against the Newfoundland issue taken over

by the terms of union. We have no other sinking funds in any of our issues at the moment. Some years ago we did consider setting up a general sinking fund against all our debt, but that was discarded as a matter of policy.

Mr. FLEMING: Are you contemplating the use of this power in respect of anything except the sinking fund in relation to the Newfoundland debt.

Mr. CLARK: I would say we are not contemplating at the moment the setting up of any new sinking funds.

Mr. FLEMING: How long ago was it that the department eliminated sinking funds?

Mr. CLARK: Well, it is back beyond my experience in the department.

Mr. McINTYRE: The last sinking fund that was applied to a loan was in connection with the last loan floated in London.

Mr. FLEMING: When?

Mr. McINTYRE: Perhaps I should not say the last loan.

Mr. CLARK: No, the last loan was in 1933 and it had no sinking fund.

Mr. McINTYRE: The 1914 loan which was floated did not have a sinking fund but loans prior to that did have sinking funds.

Mr. FLEMING: So we may take it that, whatever legislation has existed in the form of section 49, it has not been the policy of the department to set up sinking funds for the last thirty-seven years or thereabouts?

Mr. CLARK: I do not know that you can go back quite that far. There may have been some issues in the '20's which I do not recall.

Mr. FLEMING: There is no departure from that policy contemplated?

Mr. CLARK: No.

The CHAIRMAN: Shall section 49 carry?

Carried.

Section 50.

50. The payment of all money borrowed and interest thereon and of the principal of and interest on all securities issued by or on behalf of His Majesty with the authority of Parliament is a charge on and payable out of the Consolidated Revenue Fund.

Mr. WRIGHT: Section 50 appears to be new but is not that a practice which has been followed in the past?

Mr. CLARK: Yes, that is a provision that is usually included in all borrowing statutes now. I think all of them include that particular statement of principal. By including it in this particular bill I think it would be no longer necessary, Mr. Henry, to include it in specific borrowing authorities in future.

The CHAIRMAN: Shall section 50 carry?

Carried.

Section 51?

Carried.

Section 52.

52. Where it is provided by a prospectus or other official notice issued by or under the authority of the Minister that a subscriber may purchase securities

(a) by payments to an authorized agent, or

(b) by deductions from the remuneration of the subscriber by his employer,

the amount of any such payment or deduction that has not been accounted for by the delivery of securities to the subscriber or repaid to the

subscriber shall be deemed to be money received in trust for His Majesty by the agent or employer for which he is accountable to His Majesty under section eighty-nine, and for the purpose of the *Bankruptcy Act, 1949*, and the *Winding-up Act*, where the money paid or deducted cannot be identified among the assets of the employer or agent, a portion of the said assets equal in value to the amount of the payment or deduction shall be deemed to be segregated and held in trust for His Majesty.

Mr. NOWLAN: What prompted section 52? Have you had some experience in that matter?

Mr. CLARK: Yes, section 52 is designed to protect persons who buy government bonds and government savings bonds from agents or by means of deductions from salaries. We have had a number of cases where an employer has made ordinary salary deductions from the salaries or wages of his employee and then perhaps gone into bankruptcy.

Mr. NOWLAN: Are they not acquired very rapidly?

Mr. CLARK: Oh, yes, but they may not be rapid enough in some cases.

The CHAIRMAN: Does section 52 carry?

Carried.

Section 53 and 54?

53. There shall be established in the Consolidated Revenue Fund an account to be known as the Investors' Indemnity Account to which shall be credited the sum of twenty-five thousand dollars, such further amounts as are appropriated by Parliament for the purpose of this section, and any recoveries of the losses referred to in section fifty-four.

54. The Minister may, in accordance with and subject to the regulations, pay out of the Investors' Indemnity Account any losses sustained by subscribers for securities who have paid all or part of the purchase price of such securities but have not received the security or repayment of the amount so paid, and losses sustained by any person in the redemption of securities.

Mr. FULTON: Could we have a word from the deputy minister about sections 53 and 54?

Mr. CLARK: Sections 53 and 54 are merely for the purpose of setting up a small investor's indemnity account and giving it a certain appropriation to start with. Here it is \$25,000, in order to take care of losses of the type mentioned, without having to come back and include an item in the estimates every year for a small amount; there is also difficulty in trying to determine that amount. You have great difficulty investigating what losses of that kind you may be subject to in a given year. So you have to put in some figure for the estimates and it is usually too high.

Mr. FULTON: Can you suggest the kind of loss which it was intended to cover? Would it be, for example, loss in transit?

Mr. CLARK: It might be, or loss by fire, or one of those cases where the investor had bought a bond through a selling agent, and the agent did not turn the money over to the crown.

Mr. FULTON: How would that arise?

Mr. BALLS: A redemption agent might also make payment to the wrong person, quite without fault on his part, and this would provide a means of taking care of the matter.

Mr. SINCLAIR: Can you give us an idea of the losses during the last 3 or 4 years?

Mr. BALLS: In 1943, that is for the fiscal year ending March 31, 1943, the amount was \$7,596. In 1944 it was \$8,716. In 1945 it was \$10,258. In 1946 it was \$5,424. In 1947 it was \$10,287. In 1948 it was \$842. In 1949 it was \$1,288. In 1950 it was \$427. In 1951 it was \$203; and in the current fiscal year to the 31st of October it was \$816.

Mr. FULTON: There were larger amounts in the previous years than in the later years. I suppose that is due to redemption of Canada savings certificates?

Mr. CLARK: I think it was probably because there were large selling campaigns going on during those war years when tremendous amounts were being handled with a great many agents.

Mr. SINCLAIR: There is now better administration.

The CHAIRMAN: Do sections 53 and 54 carry?

Carried.

Does section 55 carry?

Carried.

Does section 56 carry?

56. The Governor in Council may make such regulations as he deems necessary to provide for the management of the public debt of Canada and the payment of interest thereon and, without limiting the generality of the foregoing, may make regulations

- (a) for the inscription or registration of securities and prescribing the effect of such inscription or registration,
- (b) for the transfer, transmission, exchange, redemption, cancellation and destruction of any securities, and, without limiting the generality of the foregoing,
 - (i) for the transmission, transfer or redemption of securities pursuant to judgment or as the result of the death, dissolution or bankruptcy of the registered owner thereof, and
 - (ii) prescribing the conditions upon which the transfer, transmission, exchange and redemption of securities registered in the names of infants, minors or other persons not of full capacity to enter into ordinary contracts, may be made,
- (c) for the issue of securities or making of payments in respect of damaged, lost, stolen or destroyed securities or interest coupons, and of the cheques pertaining thereto and prescribing conditions to such issue or payment,
- (d) requiring guarantees to be given to the registrar in such manner and by such persons as the regulations may prescribe, before the registrar is authorized to make any entry in the register,
- (e) authorizing the correction by the registrar, in such circumstances as may be prescribed by the regulations, of errors in the register and otherwise authorizing rectification of the register, and
- (f) providing for the payment of losses out of the Investors' Indemnity Account.

Mr. FLEMING: Section 56 strikes me as being a very important section. I think we ought to pause on it for a moment. It is in part new, and while there are some specific clauses, nevertheless the clauses give to the Governor in Council in general terms the power to make such regulations as he deems necessary to provide for the management of the public debt of Canada. Could we have a full statement on the significance of this statement, particularly the new provisions in it?

Mr. CLARK: The new provision in the last paragraph which provides for regulations regarding the meeting of losses of the investors indemnity account.

Mr. HENRY: Really the only principle in this is contained in the opening words:

The Governor in Council may make such regulations as he deems necessary to provide for the management of the public debt of Canada and the payment of interest thereon...

And you will notice that the next words simply say:

...and without limiting the generality of the foregoing, may make regulations.

That is just to clarify it for the purpose of those who are reading the Act and also for the purpose of those who wish to know whether or not some of the particular regulations are authorized.

Most of the provisions made certain under (a), (b), (c) and (e) are already in the Consolidated Revenue and Audit Act in perhaps more general form; and you will find the execution of that power in the Domestic Bonds Regulations which govern the terms and conditions under which bonds are issued, registered, transferred by holders, redeemed and that sort of thing.

The intention is merely to make it clear that the Governor in Council may make regulations on these things and consequently in the future the inscription and registration of securities and the effect thereof will continue to appear in the regulations. There is little new in this. But I might mention in paragraph (b) that in subparagraph (i) and subparagraph (ii) one or two important points have been spelled out, namely, they clearly set out the power of the Governor in Council to make regulations concerning the transmission and (which is the legal result which occurs on the death of the holder of the security) and the transfer of securities pursuant to a judgment. There has been a little bit of difficulty about that on the odd occasion and the regulations will be put into proper shape to permit judgments to be given effect to. Also paragraph (ii) describes the conditions upon which the transfer and transmission and redemption of securities that are registered under the name of an infant and of persons who are not of full capacity to the contract may be made. The regulations also provide for those things and there is nothing new there at all. Of the other provisions that I mentioned, (c) simply relates to the replacement of stolen bonds. The Bank of Canada will issue a duplicate bond under certain circumstances, upon the performance of certain conditions, to a person whose bonds have been lost or stolen, so that the person receives a second bond. That is, of course, subject to some other person proving himself entitled to the original bond which occasionally happens. And clause (e) is for the correction of the register. It is a routine matter; but the appearance of a person's name on the register is conclusive as to his ownership and it is a very important thing to cover.

The other two matters relate to information which has to be given to the registrar to authorize him to make an entry in the register. It just permits the operating of the register and provides for payment out of the investor's indemnity account which has been mentioned before. This is simply formal authority to the Governor in Council to make these regulations.

Mr. FLEMING: Have regulations been made or changes heretofore which did not fall directly within any of these subsections for the making of which authority was set out and found simply in the general provisions in regulations to provide for the management of the public debt of Canada?

Mr. CLARK: I cannot think of any at the moment.

Mr. HENRY: No, and I cannot think of any at the moment either.

Does Section 56 carry?

Carried.

The CHAIRMAN: Are you satisfied, gentlemen, that we have completed part 4?

Now we come to part 5 "Public Stores", which includes sections 57 to 62.

Mr. FRASER: Mr. Chairman, are these intended to cover military stores?

Mr. CLARK: I could likely ask Mr. Balls to make a statement on that part of the bill.

Mr. BALLS: Mr. Chairman, in regard to the question, I think the answer is "yes". I might say in regard to this part that it is designed to meet recommendations which were made by the public accounts committee in its sixth report in 1947, when it suggested that consideration be given to legislation with respect to the regulations and management of stores and equipment inventories.

The first section, 57, deals with the management of physical stores, and the physical records respecting the acquisition, custody, issue and control of such stores. The basic provision, however, is in the following section which deals with the establishment of the mechanism by the operation of revolving funds. This does not provide automatically for the establishment of a revolving fund except with respect to the continuance of the Department of Transport stores account, which is continued under the provision of section 101 of the bill. But it does provide that when parliament has authorized the establishment of a revolving fund, that this will be the procedure to be followed in its operation.

It sets out the methods of control and provides that the net amount of the payments that may be charged at any time to the fund shall not be in excess of the amount which parliament has provided, or such lesser amount as the Treasury Board may prescribe.

Mr. FRASER: That would take in the bill that the Minister of Transport had last year, on his revolving fund?

Mr. BALLS: Yes. One of the statutes to be repealed by this bill will be the Department of Transport Stores Act and we also provide in section 101 of this bill for the continuation of the authority to the Department of Transport to acquire stores up to an amount of \$4 million at any one time.

Mr. FRASER: Under this section 57, where every department shall maintain adequate records and stores, does the Finance Department or the Treasury Board demand that inventories be taken at regular periods, or how is that done?

Mr. BALLS: If you will note the provisions of the section, which state that the appropriate minister, that is the minister having charge of the stores, or such other authority as the Governor in Council may direct, may make rules and give directions.

Mr. FRASER: I wondered if the treasury department should not also make suggestions in there?

Mr. BALLS: I would think, sir, that it might be quite possible for the Governor in Council to so direct such other authority.

Mr. FRASER: That is what I am trying to find out. Has the Governor in Council directed at any time that that be done?

Mr. BALLS: Not to my knowledge, sir.

Mr. FLEMING: Is it intended that there may be more than one revolving fund in any department?

Mr. BALLS: It is, but I do think that the normal practice would be to have more than one fund for one department.

Mr. FLEMING: And what justification is there for more than one revolving fund in any one department?

Mr. BRYCE: There are certain parts of some departments which are almost entirely separate from other parts of the department. For example, in the Department of Agriculture you will find the Prairie Farm Rehabilitation Administration in the west, which very largely operates physically separately, geographically separately from the rest of the department. You might conceivably have a case where it would be logical to have a stores account for such operations of the department; or take the case of penitentiaries and the R.C.M.P. Technically both of those branches come under the Minister of Justice, but they might have separate stores accounts.

Mr. FRASER: And under the Department of Transport you have Canals and Air.

Mr. BRYCE: Transport is a unique case. It already has a stores account. I think it would depend on the way the department is organized and whether there is a central management as distinguished from management for various branches.

Mr. FRASER: They would not keep their stores separate from their air stores, would they?

Mr. BRYCE: They do not, and they have a stores account.

The CHAIRMAN: Do Section 57 and 58 carry?

Carried.

The CHAIRMAN: Does section 59 carry?

59. All accounting transactions with respect to a revolving fund under this Part shall be recorded at cost, but for the purpose of valuing stores or materials on hand at the time the revolving fund is established and of valuing inventories and issues of stores and materials, cost may be determined in accordance with such recognized accounting practices as the appropriate Minister with the approval of the Treasury Board, may direct.

Mr. FLEMING: There is a provision here as to the power of the Governor in Council which is simply intended to put in a limitation on the use of the revolving fund, I take it?

Mr. BALLS: What are you referring to?

Mr. FLEMING: I was not referring to any one clause in particular.

Mr. BALLS: There is a provision in subsection 3 of clause 58 which says:

A payment made out of the Consolidated Revenue Fund pursuant to subsection one together with the balance of the revolving fund shall not be greater than the amount fixed by Parliament as the amount that may be charged to the revolving fund at any time or such lesser amount as the Treasury Board may prescribe.

Mr. FLEMING: The power is reserved to the Treasury Board to limit the amount which may be used out of what Parliament has provided for the purpose?

Mr. BALLS: Yes.

Mr. WRIGHT: In subsection 5 it says:

At the end of each fiscal year the value of the inventory held and accounts receivable in respect of the operations of a revolving fund shall be determined in accordance with regulations of the Treasury Board...

A measuring stick is used in determining the value of stores. For instance, we have a revolving fund in which we have bought surpluses of a certain basic or scarce material and it is quite conceivable that they may fluctuate in value. Is that fluctuation in value shown in the public accounts that appear before parliament in any form, and what is the rule with respect to reporting the fluctuation in the value of stores, so that it becomes apparent to the members of the House as to what is taking place?

Mr. BALLS: I do not think that normally fluctuations in value of stores would be recorded in the public accounts. What is more in mind here is the possibility of different bases of establishing the value of the stores on the basis of cost. There are different methods of inventory valuation on cost; for instance, you may have the "first-in first-out" method of valuation, the "Cost-in first-out" method, which are entirely different types; also there is a third type of valuation, "average cost" which again may give a different valuation of the inventory.

The basic purpose is to establish that whatever basis of determining cost value is adopted must be in accordance with what the Treasury Board would regard as acceptable accounting practice.

Mr. WRIGHT: There is no provision in this Act that there should appear in the public accounts losses with relation to stores held by the government?

Mr. BALLS: Not in regard to fluctuations in the value of the stores. There is nowhere a provision in a later section, in section 60, if you will refer to it, where the establishment of boards of survey is provided for. Each appropriate minister must from time to time constitute a board of survey to determine whether there are any stores which have become obsolete or unserviceable, or which have been lost or destroyed.

Mr. WRIGHT: That was the point I was getting at. Would the fact that those stores had become obsolete become apparent to the average member through any form that is in the public accounts?

Mr. BALLS: Under subsection 3 of section 60 it says:

"A statement in such form as the Treasury Board prescribes of all stores and materials deleted from inventories pursuant to subsection 2 shall be included annually in the public accounts."

Mr. WRIGHT: Is it mandatory on each department to indicate what has become obsolete, or is it just a matter for their judgment?

Mr. BALLS: The provision of the section is that "the appropriate minister may from time to time constitute a board of survey to inquire into the state of the stores under the management of a department."

Mr. WRIGHT: It is not mandatory that he do this?

Mr. BALLS: Not that he do it annually, sir.

Mr. WRIGHT: Would it not be wise to have a provision that this should be mandatory, and that it should be indicated to parliament what has become obsolete?

The CHAIRMAN: I think the words "from time to time" are the words which Mr. Wright may want to have clarified.

Mr. WRIGHT: That may be 50 years from now.

Mr. BALLS: There are two points to be borne in mind. We have a provision in section 61 requiring the comptroller of the treasury to examine records, accounts and procedures respecting stores and materials and report thereon to the minister or the appropriate minister. In addition to that, there is provision for the auditor general to examine stores and inventories.

Mr. WRIGHT: That is what I was trying to get at, the point that the auditor general, if he deems it necessary, can step in and ask that a board be constituted. Is there anything which provides that he shall at certain constituted periods ask a department to assess the value of its stores?

The CHAIRMAN: Before we pass on to the next section, that is, clause 60, shall section 59 carry?

Carried.

Mr. CLARK: I would think, sir, that the Auditor General would make his report under the Auditor General's provisions,—the provision for making a report to the Governor in Council or to the Treasury Board with regard to

matters that he feels should be brought to the attention of council or the board, and, also, he is free under the reporting provisions to report to the House of Commons with respect to those matters which he feels should be brought to the attention of the House.

Mr. WRIGHT: Would you not think it would be a good provision in the Act to make it mandatory that these boards function at least every two years, to indicate the possession and value of stores?

The CHAIRMAN: If I might suggest that we add after the words—although I do not want to come into the drafting of the Act—after the words “from time to time” add “not less than once every five years”. Two years is a bit short. Could Mr. Henry draft the words that would include that desire of the committee?

Mr. WRIGHT: Let us consider the matter of five years. Is five years too long a period, or would three years be a better period?

The CHAIRMAN: I leave it to the committee. I suggested five years because I am told in some departments it would have to be done every year and in some departments it would be better to give them a longer period.

Mr. SINCLAIR: The King's Printer would be an example.

The CHAIRMAN: I think five years would be a better arrangement. In many departments it is from year to year, and in others that might not be practicable. Five years would mean that anything that had become obsolete would necessarily be reported, and five years is even a short period.

Mr. FLEMING: Not in the life of a politician.

The CHAIRMAN: No, in the case of you and I who can survive 10 years or more, five is a short period.

Would five years be agreeable?

Agreed, subject to correction of the wording being left to Mr. Henry, Section 60 carried.

Items 61 and 62. I think those have been covered by the statement made by Mr. Balls.

Shall item 61 carry?

Carried.

Shall item 62 carry?

“62. For the purposes of this Part, the Treasury Board may by regulation define for any department the expression “stores”, “materials” and “issues”.”

Mr. CAMPNEY: May I ask a question on item 62. Unless and until the Treasury Board defines these very important terms is Part V of the Act inoperative?

Mr. BALLS: I think the answer to that, sir, is that the Act itself only comes into force on proclamation. If you will notice in section 102, it says:

“This Act or any Part thereof shall come into force on a day or days to be fixed by proclamation of the Governor in Council.”

Mr. CAMPNEY: Yes, I understand that, but the practical working of section 62 is based on the meaning of all these words not now defined, but which run all through the part, and until the Treasury Board makes these definitions I take it the part is inoperative.

Mr. BALLS: Not necessarily, though I think in any event there would be ample time to have these words defined before the Act comes into force.

Mr. CAMPNEY: If they were not what would happen then?

Mr. SINCLAIR: They would not proclaim it.

The CHAIRMAN: Shall item 62 carry?

Carried.

Mr. FLEMING: I wonder if the committee would agree to leave Part VI for the present and go on to the other Parts and come back later to this Part VI. One member of the committee cannot be here who has some questions he would like to ask on Part VI.

The CHAIRMAN: Items 63 and 64 will stand.

Now we come to Part VII, the Auditor General. I think on this part we might ask the Auditor General to come forward rather than stay in seclusion.

Mr. FLEMING: In splendid isolation.

The CHAIRMAN: Item 65. Are there any questions on this item, gentlemen?

Shall the item carry?

Carried.

Item 66.

66. (1) Notwithstanding any Act of Parliament, the Auditor General is entitled to free access at all convenient times to all files, documents and other records relating to the accounts of every department, and he is also entitled to require and receive from members of the public service such information, reports and explanations as he may deem necessary for the proper performance of his duties.

(2) The Auditor General may station in any department any person employed in his office to enable him more effectively to carry out his duties, and the department shall provide the necessary office accommodation for any such officer so stationed.

(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by persons employed in that department.

(4) The Auditor General may suspend from the performance of his duty any person employed in his office.

Mr. FLEMING: Is there anything that the Auditor General intends to say on paragraph 66, on the subject of the pre-audit, or anything of that kind?

The CHAIRMAN: The Auditor General stated that we might go article by article and he would answer questions.

Mr. SELLAR: You were not here yesterday when we were discussing this?

Mr. FLEMING: I was here yesterday but do not recall hearing you say anything on that.

Mr. SELLAR: I told the committee yesterday that the provisions regarding pre-audit were being deleted at my request; they did not work; they were not required now, and the Comptroller of the Treasury has, in effect, pre-audit duties before a payment, he is the internal auditor.

Mr. FLEMING: I heard you make that statement, but I did not know whether you intended to make some further statement in the subject.

The CHAIRMAN:

Shall item 66 carry?

Carried.

Shall item 67 carry?

Carried.

Shall item 68 carry?

68. The Auditor General shall

- (a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister may require, and

(b) when and to the extent required by the Minister, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities, authorized to be destroyed under this Act, and may, by arrangement with the registrar, maintain custody and control, jointly with the registrar, of cancelled and unissued securities.

Mr. FLEMING: This is new. Could we have a statement on this, Mr. Chairman.

Mr. SELLAR: When the Consolidated Revenue and Audit Act passed in 1931 the Department of Finance serviced the public debt. Since then the Bank of Canada has been created and the Bank of Canada now services the public debt, and, therefore, you now need new language in there dealing with the servicing of the debt.

The CHAIRMAN: Shall item 68 carry?

Carried.

Shall item 69 carry?

Carried.

Shall item 70 carry?

70. (1) The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that

- (a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
 - (b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
 - (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
 - (d) an expenditure was not authorized or was not properly vouched or certified,
 - (e) there has been a deficiency or loss through the fraud, default or mistake of any person, or
 - (f) a special warrant authorized the payment of any money,
- and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

(2) The report of the Auditor General shall be laid before the House of Commons by the Minister on or before the thirty-first day of December, or, if Parliament is then not in session, within fifteen days after the commencement of the next ensuing session thereof, and if the Minister does not, within the time prescribed by this section, present the report to the House of Commons, the Auditor General shall transmit the report to the Speaker for tabling in the House of Commons.

Mr. SINCLAIR: I might just draw Mr. Fleming's attention to section 70, subsection (2), to the fact that public accounts are to be tabled on or before the 31st day of December.

Mr. FLEMING: Subsection (2) of section 70?

Mr. SELLAR: That is tied in with the public accounts section.

Mr. FLEMING: Is that the earliest date, Mr. Auditor General, you are satisfied we can get these accounts into Parliament, if there is a fall session?

Mr. SELLAR: So far as my report is concerned, I can produce it in the month of August. The problem is not with the Auditor General's Report but with the Public Accounts, that voluminous volume which I think sooner or later you will have to reduce. In the printing of that volume you have a physical problem there that requires six months. Moreover, this is a rather distressing thing—I come from the province of Quebec—the French members

do not get their French edition early on account of the very size of it. I think you will have to reduce the amount of material that is being put into the Public Accounts.

Mr. FLEMING: What would you suggest first in that direction, raising the ceiling on the amounts that are to be reported?

Mr. SELLAR: Yes, condensing it generally, and salaries in particular. I do not believe that any member of parliament is really interested in what the general run of salaries are throughout the departments. He is interested in the chiefs but he does not care what the juniors get. I would say that the storekeepers are more interested in that information.

Mr. SINCLAIR: That is all out now. We raised that to a limit of \$5,000.

Mr. FLEMING: Yes, we did, at least we recommended that.

Mr. SELLAR: You got it up to \$5,000, but you will have to go a little higher.

Mr. FLEMING: Is there any reason why provision should not be made that your report should be tabled earlier than this date if parliament is in session in the fall?

Mr. SELLAR: I have no objection, sir, so far as I am concerned, because it is no problem to me to get my material to the printer in the month of August, and he rarely takes more than a month to get mine off, and he does a splendid job. We get good clean proof from him and any prints we require. That is why ours is all ready in the fall. I happen to be a printer by trade and that is why you will see that blue insert in the back so that the printer will print mine separately and not try to number it. As far as I am concerned, you can set any date you like after the middle of October.

Mr. SINCLAIR: As far as study by the committee is concerned, the two go hand in hand, your report and the actual record of the public accounts.

Mr. SELLAR: What Mr. Fleming, I think, has in mind is that my report should be ready in case there is a fall session, not that it will also be bound in with the public accounts.

Mr. FLEMING: I do not see any reason for any delay. We have had proof this fall it can be done otherwise. I think this large volume need not be printed before we have your own report because it is, after all, in terms of bulk, a small part of that big volume. I was wondering, in comparing 70 (2) with 64 (1), if we need to provide the same date for the two? Why cannot we leave the provision for the tabling of the public accounts on whatever date may be found necessary, in order to allow ample time for that heavy printing job, but not to postpone the filing of your own report in the House?

Mr. SINCLAIR: There are two points that arise here—first of all, the two are connected, and secondly, the actual practical thing is we have had public accounts referred to the committee this session and we are not going to touch them, they will be handled by the spring session, and we all hope there will not be many more fall sessions.

Mr. FLEMING: Just the same, we have had three fall sessions in the last three years, and I share the hopes expressed by the parliamentary assistant we won't have any more of them.

Mr. FRASER: Many more of them, he said.

The CHAIRMAN: If this committee got the Auditor General's Report separate from the public accounts, the role of the chairman would be much simplified, because each year I have a difficult time limiting the study of the committee to the Auditor General's Report when everyone wants to refer to the Public Accounts. Most members, when they consider the report of the Auditor General every minute refer to the Public Accounts. We have a hard time to stop them from getting on to the Public Accounts on every occasion, but it helps them to understand the Auditor General's Report better.

As far as the chairman's task is concerned I think that would simplify it if we had only the first one because people would not be tempted to enter the whole department on one slight item in the Auditor General's report, but my experience induces me to believe that it is most useful to have all details given in Public Accounts on any given point raised in the Auditor General's report.

Mr. FLEMING: May I ask Mr. Sellar if there is any practical difficulty he sees in having a requirement here that his report should be filed at an earlier date, perhaps several months earlier, than it is provided in section 64 for the time of tabling the public accounts?

Mr. SELLAR: My reply is this, Mr. Fleming. First, I do not get the financial statement from the Deputy Minister of Finance and the Comptroller of the Treasury until early in July as a rule. Sometimes the Deputy Minister of Finance's statements do not come in until August, but as a rule they are improving every year and I get them at the end of June or early in July. If I have them I can close off our audit and we can have our copy in the hands of the printer not later than the end of August, sometimes early in August.

Now then, after that the printer takes about three weeks for the handling of the corrections and printing and after that, sir, they are sitting in my office and if parliament is sitting and they want them there is no reason in the world why they should not have them, as far as I am concerned. But I would not like you to set a date earlier than the 30th of September or preferably the 15th of October. It is purely a matter for the members of the House of Commons to decide when they want it. We will be ready.

Mr. FLEMING: Well, there is certainly nothing any more important than the tabling in the House of the report of the Auditor General, and I do not see any difficulty in detaching the filing of the report of the Auditor General from the filing of the bulky volume of the public accounts.

If in any fall session the committee decided to undertake a detailed reading of the Auditor General's report, then it should be able to do so even though it might have to wait for the public accounts. The committee or any of the members of the House in the event of a fall session, I think, should take full advantage of the opportunity of having the report of the Auditor General earlier than the 31st of December, which is the new deadline prescribed by 64 for the tabling of the public accounts, and I think we ought to change this date in section 70, subsection 2, to the 15th of October, which was the date last mentioned by the Auditor General.

The CHAIRMAN: Are there any comments?

Mr. SINCLAIR: You actually cannot study the Auditor General's report with any real knowledge unless you have the public accounts on which it is based with it. The practice has always been this way. Would the auditors report be of any value in any event without knowing the accounts to which it refers. Mr. Sellar, of course, has to have the accounts before he can prepare his report.

Mr. FLEMING: That might be a question of the committee, if it were sitting down and making a detailed study of the accounts it might or might not want to have the balance of the public accounts, but I am thinking of members of the House in the fall session whether the committee is sitting or not and just because it has not been done let us not be too conservative with a small "c" from that point of view.

The CHAIRMAN: Let us not have anything too Conservative with a capital "C".

Mr. KIRK: I think Mr. Sinclair's comments or points are well taken. It seems to me that if you are going to study the Auditor General's report, you will want the public accounts report right alongside of it; otherwise, we will misconstrue some of the statements.

Mr. FLEMING: It is not necessarily a question at all, might I point out, Mr. Kirk, a question of the committee studying these things; it is a question of information to members in the House.

Mr. KIRK: Yes, of individuals as well as the cabinet.

Mr. FLEMING: Yes, or members of the House.

The CHAIRMAN: How can you at times form an opinion whether you agree with the Auditor General or not if you do not get the full details as given in Public Accounts.

Mr. FLEMING: Well, I can say to you, Mr. Chairman, in my own case when I first read over the report of the Auditor General I don't know if I ever referred in the reading of that report to the accounts, because he makes his comments which are pretty thorough and they are complete in themselves.

The CHAIRMAN: Well, gentlemen, do we have a motion on that?

Mr. FLEMING: I will move, then, Mr. Chairman—I thought this might have been generally agreed to, but if it is not I will move that we strike out the words “thirty-first day of December” in line 22 and substitute therefor “the fifteenth day of October.”

The CHAIRMAN: Any further comments before I put the question?

Mr. MALTAIS: In fairness, in businesses is there such a practice that an auditor will publish his report but will not publish his statement of revenues and expenses? Then, can this motion bring up something in the accounting practice? Does there exist such a system now in the country where you publish an auditor's report and you do not publish a balance sheet and you do not publish a statement of revenues and expenses? Is there a departure from it?

Mr. SELLAR: Well, in the ordinary corporation, the auditor addresses his report to the directors and the shareholders and to that is attached financial statements. In this legislation the public accounts are prepared by the Deputy Minister of Finance and the Comptroller for the Treasury and they are transmitted by them to the minister who in turn addresses them to the Governor General in Council.

My report is not addressed to anybody; it is to be laid before parliament. That is a report on the accounts—not exactly comparable, sir, but I can see your point, but the two documents come together as a rule.

Mr. MALTAIS: Would you think that it might happen with a new report that it might be construed if you did not have the public accounts that you could not give more meaning to your reports? Suppose you mention a deficit on a new report. That is all you have to mention—that there is such deficit. Well, it would be easy to comment but you do not have the figures before you to explain it. Is there a matter of policy there?

Mr. SELLAR: The real point is, if you have the public accounts before you you can check the accuracy of my statement as an auditor. That is the point.

The CHAIRMAN: Well, might I suggest that we leave the item stand?

Mr. SINCLAIR: We have had a discussion; we might have a vote now.

Mr. FLEMING: Isn't this the sort of thing the minister might want to consider?

Mr. SINCLAIR: The minister has considered it; that is what he believes is right.

The CHAIRMAN: Well, I am in the hands of the committee, gentlemen. Mr. Fleming moves that clause 70, subclause 2, be amended by deleting the words “thirty-first day of December”, in line 22 thereof, and inserting therefor “fifteenth day of October.” All those in favour please signify?

The CLERK OF THE COMMITTEE: Four, Mr. Chairman.

The CHAIRMAN: All those against?

The CLERK OF THE COMMITTEE: Thirteen, Mr. Chairman.

The CHAIRMAN: I declare the amendment lost.

Item 71.

71. The Auditor General shall, whenever the Governor in Council, the Treasury Board or the Minister directs, inquire into and report on any matter relating to the financial affairs of Canada or to public property and on any undertaking or service that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought.

Mr. WRIGHT: In connection with this, there is a question I would like to ask. Does that apply to where another country seeks financial aid from Canada or does it only apply within the Dominion of Canada? I am thinking of the Colombo plan or where some other nation asks for certain assistance in Canada. Is the Auditor General the authority that should investigate that? What has been the custom in the past or in this is he likely to be asked to undertake investigations outside of Canada?

Mr. BALLS: Well, I would say that the answer to that is "no", I do not think it would be proper or possible for the Auditor General to examine the transactions of a particular government. What is intended there, though, is the possibility of the examination of the transactions of international organizations and other similar bodies which might be seeking aid from Canada.

Mr. WRIGHT: Well, would it just be the bookkeeping of those organizations or the objectives of those organizations?

Mr. BALLS: I would say in answer to that that it would be the accounts and records of those organizations. I do not think it would be an audit of the purposes and objectives.

Mr. FLEMING: Well, what about organizations which are not necessarily public in their main functions, which receive parliamentary grants? What is the relationship of this section to them?

Mr. BALLS: I think, sir, that this would give the authority for the Governor in Council or Treasury Board or the Minister of Finance to authorize the Auditor General to investigate and report on the accounts of those bodies.

Mr. FLEMING: I can see the need for that. It is quite a sweeping power. If parliament is making a small grant to some organization, does the Auditor General as a matter of practice—take the long list of organizations to which grants are made in parliament of the Department of National Health and Welfare—does the Auditor General attempt to carry on the kind of inquiry and report as to those organizations contemplated by section 71?

Mr. SELLAR: This is a new section, and the Department of Finance people will correct me, but I imagine this has been adopted from the old Board of Auditors Act where a great many years ago there was an Act providing for three chartered accountants to form a board with the Minister of Finance or Treasury Board and look into any matter like this in Canada or any body assisted by Canada, to look into their accounts or affairs, to protect the government's interest and I imagine that is taken from it. This is new, as far as I am concerned.

Mr. SINCLAIR: It is only at the request of the minister or government of Canada?

Mr. SELLAR: The real reason is, this section—I am speaking in the presence of lawyers and they can correct me—this section does not give me any power or would not give me any power to go into the accounts of anybody; there would have to be consent, but this, I gather, is the direction from parliament that if I am told to do this by the government or the minister I do it. And I would assume, as Mr. Fleming stated, assuming that it is some large agricultural

cooperative which came to the government and asked for financial assistance and the government was not sure whether it wanted to give the assistance or not, they would say, "We want to have a good look at their financial system and see if they require anything." That is what I would imagine. I am just guessing at the moment.

Mr. MAJOR: Would that apply to the mining industry?

Mr. SELLAR: You are thinking of this gold regulating system that is applicable to the companies which they can get. All the government would instruct me to do would be to satisfy myself that they qualified within the terms of the Act. I do not think I would have any right to go over their accounts and audit them.

Mr. CAMPNEY: Except that they might lose their grants.

Mr. WRIGHT: I think that is a very good regulation. I think if the government of Canada are going to make grants they ought to know all about who the grants are going to.

Mr. CLARK: It might never be used. It is wholly permissive but we thought it desirable to have the power in certain cases. So far as the question of the power that the Auditor General would have, I think this should be read in conjunction with 74, which gives the Auditor General the power of a commissioner under Part I of the Inquiries Act. He would have adequate power if the Governor in Council requested him to make this kind of inspection and report.

Mr. FLEMING: I wonder, Mr. Chairman, if the words "undertaking or service" in line 33 are the most effective words for the purpose? It does not say "any recipient of financial aid from the government," but dealing with what might be grants or assistance to organizations outside the government of Canada or possibly public property it is just "undertaking or service that has received financial aid or may seek financial aid". "Undertaking or service"—where did those words originate? Would it not be better, if the principle is sound, to say that "any recipient of financial aid or any applicant for financial aid"?

Mr. SELLAR: Or "any body"—just use the word "body".

Mr. FLEMING: I think if you said "recipient" or "applicant" that includes everybody in every capacity.

Mr. BALLS: I think we might ask the lawyers to consider that.

The CHAIRMAN: We will keep it under advisement for consideration of probable amendment to the words "undertaking or service".

Item 72.

Carried.

Item 73.

73. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall report the circumstances of such cases to the Minister.

Mr. FULTON: On 73, Mr. Chairman, I just wondered—I see it is not new at all—why the report is consigned to the minister. Would it not be also proper to have that included in the Auditor General's report to parliament and I was going to ask the Auditor General whether he puts it in his report?

Mr. SELLAR: We automatically would put it in our report. This is just a matter of making it law.

Carried.

Mr. FLEMING: In 73 there is no time limit. That is the kind of section where one would expect to find, "He shall forthwith report the information to the minister".

Mr. SINCLAIR: We expect that of the Auditor General.

Mr. SELLAR: I might say in connection with this information I have always reported it within twenty-four hours.

Mr. FLEMING: As Mr. Sinclair says, I think we would expect it of the Auditor General.

Mr. SELLAR: I have no objection to your putting it so, but when I say "I" I mean my predecessors as well. I am not trying to take a bouquet for myself.

Mr. CAMPNEY: I think it could very logically be put in there.

Mr. SINCLAIR: That he shall "forthwith"?

Mr. FLEMING: In line 41, between the word "shall" and the word "report".

The CHAIRMAN: Shall the clause carry as amended?

Carried.

Section 74?

Carried.

Section 75?

Carried.

We now reach Part VIII, Crown corporations. I think I had Mr. Wright postpone some of his remarks the other day by stating that when we came to this part he could make his remarks.

Mr. CLARK: Mr. Chairman, I think, if it is satisfactory to the committee, it might be well to have a few comments on the general pattern of this part from Mr. Balls. It is a new and somewhat experimental section which was extremely difficult to work out. It may not be clear to any person reading it for the first time. I think Mr. Balls could make a few comments which would give the picture of what we had in mind.

The CHAIRMAN: I think it would be of benefit to the committee if we had a few remarks.

Mr. BALLS: The purpose of this part is to establish a uniform pattern for the relationships between Crown corporations and the government. We have tried here to establish a pattern of relationships on the basis of a three-fold classification of Crown corporations.

In the first place we have defined what we call departmental corporations, which are in essence departments of government incorporated or given corporate status for one reason or another and over which the Governor in Council or the minister exercises more or less continuous control or direction. In the bill, these departmental corporations are defined as "any Crown corporation that is a servant or agent of His Majesty in right of Canada and is responsible for administrative, supervisory or regulatory services of a governmental nature."

The second group consisting of what we call agency corporations—include "Any corporation that is an agent of His Majesty in right of Canada and is responsible for the management of trading or service operations on a quasi-commercial basis, or for the management of procurement, construction or disposal activities on behalf of His Majesty.

The third group which we call proprietary corporations is defined in the bill to mean: "Any Crown corporation that (1) is responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public, and, (2) is ordinarily required to conduct its operations without appropriations."

Now, in the pattern of the part we have provided that the departmental corporation shall be subject to the general provisions of the Act except in so far as they may be exempted by the special provisions of the statute under which they are incorporated or under which they operate. In other words, they will be treated more or less as ordinary departments of government.

Mr. CLARK: Subject to all of the earlier provisions of this Act.

Mr. BALLS: Quite. Agency and proprietary corporations will be subject to the provisions of this Crown corporations part, subject however to any special over-riding provisions in their own special legislation.

In other words, if there are special provisions in an Act incorporating a company which are inconsistent with the provisions of this part, those special provisions apply.

In general, the provisions of the Crown corporations part apply uniformly to agency and proprietary groups with two exceptions. The first exception is that, while both agency and proprietary corporations are to be required to submit capital budgets to be laid before parliament annually after approval of the Governor in Council on the recommendation of the appropriate minister and the Minister of Finance, the agency corporations will be required also to submit their operating budgets for the approval of the appropriated minister and the Minister of Finance.

The second distinguishing feature in regard to the treatment of agency and proprietary corporations is that agency corporations shall also be required to undertake their contractual commitments subject to the regulations of the Governor in Council.

Now, for the rest, the provisions of the part apply equally to agency and proprietary corporations and I might just run over the provisions very briefly.

In Section 77, the Auditor General is made eligible to be appointed the auditor, or a joint auditor, of a Crown corporation. In Section 79, the financial year of the corporation is stated to be the calendar year unless the Governor in Council otherwise directs. That of course is subject to the provisions of any special Act which may state another period for the financial year.

Mr. FLEMING: Suppose the calendar year is set by the Act, the Act pertaining to the particular Crown corporation?

Mr. BALLS: Then, it will be the calendar year.

Mr. FLEMING: This won't affect it at all?

Mr. BALLS: It is subject to the specific Act which over-rides this provision.

Section 80 as I have mentioned deals with the submission of budgets. In Section 81, subsection (1) deals with the bank accounts of corporation and provides that corporations, with the approval of the Minister of Finance, may establish bank accounts in the Bank of Canada or in bank's in Canada or financial institutions outside of Canada. Subsection (2) provides, in effect, that the Minister of Finance may require a corporation to use the Receiver General account as its bank account; and subsection (3) authorizes the appropriate minister and the Minister of Finance to require a corporation, with the approval of the Governor in Council, to pay over to the Receiver General any moneys that may be in excess of the requirements of the corporation.

Section 82 authorizes the Governor in Council, at the request of the appropriate minister, to direct the Minister of Finance to lend money for working capital to the corporation. This is limited to an amount of not more than \$500,000 for any corporation and any loan so made is subject to repayment within a period of twelve months. Also there is a requirement to make a report on all such loans to parliament.

Mr. WRIGHT: Would that be in addition to any provision in the Act setting up the corporation, which provided for loans?

Mr. BALLS: Yes, sir, that is in addition to any general loaning authority in a special Act.

Section 83 deals with the matter of regulating the contractual commitments of agency corporations. Section 84 empowers a corporation to make provision for reserves for depreciation of assets, for uncollectable accounts, and so on, subject to any order of the Governor in Council.

Section 85 requires a corporation to keep proper books of account and to prepare annual statements of accounts including a balance sheet, a statement of income and expenditure, and a statement of surplus, containing such information as is required normally by The Companies Act; also to include such other information as either the appropriate minister or the Minister of Finance may require. Subsection 3 of that section calls for an annual report and prescribes that it shall be submitted to the appropriate minister within three months after the end of the financial year, and that the minister shall submit it to parliament within fifteen days after he receives it.

Also, there is provision for such additional reports as the appropriate minister may require.

Section 86 gives the auditor of the corporation access to the books and such other information as he may require from the corporation or the corporation officers. Section 87 prescribes in some detail the type of auditor's report that will be required in connection with agency and proprietary corporations. It is a more precise form of reporting than is required under The Companies Act. You will notice that it calls for a statement not only in regard to the balance sheet but also in regard to the statement of income and expenditure, but furthermore it requires a statement from the auditor as to whether or not the statements have been prepared on a basis consistent with that of the previous year. It is more in line I think with American practice and refers also to some greater extent current United Kingdom practice.

There is provision for the auditor to call attention to matters which he feels should be brought to the attention of parliament including any transactions of the corporation which he feels are beyond the powers of the corporation. Other reports may be made to the appropriate minister, and it is provided that the auditor's annual report will be included in the corporation's annual report to him.

Section 88 finally provides that whenever the auditor believes a matter shall be brought to the attention of the Governor in Council, the Treasury Board or the Minister of Finance, he shall report through the appropriate minister.

Those I believe, are the principal terms of the Crown corporations part.

Mr. WRIGHT: I asked Mr. Sinclair in the House just why the Wheat Board was not included as a Crown corporation in the Schedules to the Act. Can you give me an explanation of that?

Mr. BALLS: I think, sir, the Wheat Board was incorporated with the prime object of marketing in an orderly manner in interprovincial and export trade, the grain grown in Canada. It is declared in the statute to be an agent of the Crown but that is largely for the purpose of litigation, and it is in fact regarded more as an agent of the farmer or grain producer than of the Crown. In view of the rather special nature of the Board's functions, its relations with the producers, and their particular concern in its operation, it is not considered advisable to alter the existing relationship by making the provision of the Crown corporations part applicable to the Canadian Wheat Board.

Mr. WRIGHT: In that case, if it tables its annual report in the House, but is not included here as a corporation over which we have, as parliament, certain control that we have over other corporations, I know of no method whereby the growers themselves can use or can survey the annual report of

growers and the method for the growers of exercising their right is to examine the Wheat Board—except through parliament? It seems to me that the Wheat Board must be responsible to somebody. You say it is responsible to the the accounts of the Wheat Board through parliament.

Mr. BALLS: I am trying to locate a copy of the statute.

Mr. WRIGHT: I do not think there is any provision that I know of whereby the growers as such can exercise their right to examine the accounts of the Wheat Board except through parliament. And if there is not, there should be some provision made for the growers to have that right, or parliament should assume that right, on behalf of the growers.

Mr. BALLS: Well, first of all the Canadian Wheat Board is subject to the Canadian Wheat Board Act. Moreover, the provisions of the Crown Corporations part of this bill will not override the provisions of the Canadian Wheat Board Act, and, although I am not absolutely certain, I think there are provisions in this latter Act with respect to the appointment of auditors and the presentation of an annual report.

Mr. WRIGHT: But they report to parliament. They do not report to the growers.

Mr. BALLS: I think that is quite right.

Mr. WRIGHT: Well, we make no provision in this Act for checking, and the growers have no agency through which they can check, except through Parliament. That is the point.

Mr. BALLS: In section 5B of the Canadian Wheat Board Act there is a provision for the board to keep proper books and accounts and to report to the minister each year on or before the 31st day of March, and that report to the minister is to be in writing. Furthermore, the minister is required to lay a copy of each report of the board made under the provision of this section before parliament.

Mr. WRIGHT: Yes, but you have just told us that the Wheat Board was not included in crown corporations because it is an agency of the growers. But the growers under the Act have no way of checking the accounts of the Wheat Board except through parliament because it is an entity which was brought into being by parliament. I think it should, however, be included in these crown corporations.

Mr. CLARK: Is there not an advisory committee?

Mr. WRIGHT: Yes, but they have no authority to check accounts. They are just an advisory committee to the wheat board with regard to the policy of the board and they have no authority under the Act to examine the accounts of the wheat board.

Mr. CLARK: Does not the laying of a report before parliament in accordance with the Wheat Board Act give parliament an opportunity to examine and investigate the operations of the wheat board on behalf of itself and on behalf of the growers?

Mr. WRIGHT: Mr. MacKinnon, when the Act was introduced, stated that it would be placed before the Agriculture Committee of the House at each session. But it has not been placed before the Agriculture Committee of the House in the past 3 sessions. We have had 3 annual reports tabled in the House, but we have never had as an agriculture committee of the House an opportunity to go into the details of those reports. I think they should be included as one of the crown corporations.

The CHAIRMAN: Of course, the witness might not be the one to give his opinion as to what should be government policy. I agree that there should be a way whereby we could go into the accounts of the Wheat Board, but I wonder

if the witness is the proper one to express an opinion on government policy. We might ask Mr. Balls if he knows of any reason why they were not included.

Mr. WRIGHT: It is not satisfactory to me.

Mr. SINCLAIR: I shall ask the minister to come to our meeting tomorrow and then we might ask him whether or not the wheat board should be included as one of these agency corporations. Can we not let the item stand until then, Mr. Wright.

Mr. WRIGHT: Yes, but I want to express this opinion, that I agree with Mr. Clark when he says that this is an agency of the growers. But I think there should be an agency whereby the growers would have the right to examine the accounts of the wheat board themselves, and that could be done if this corporation were set out in the name of the growers.

Mr. SINCLAIR: You are now going in the other direction. You want the Act changed to give the growers a better opportunity of examining the records.

Mr. WRIGHT: It has certainly got to be in one place or the other, and I think it should be the growers.

Mr. CAMPNEY: Is not that a matter for consideration of the Wheat Board Act?

Mr. SINCLAIR: That is what I pointed out.

The CHAIRMAN: Mr. Wright has brought in this matter of whether or not in bringing in new legislation concerning crown corporations we should include the wheat board. But whether we should or should not look into the wheat board administration is another matter. However, in asking why it was not included here, I think he was perfectly in order.

Mr. WRIGHT: That satisfied me. And I would like to have the minister here to question him.

The CHAIRMAN: The minister expressed a desire that any time any member of the committee wished, he would report instantly and be a witness before the committee.

Mr. FULTON: Why not get the Minister of Defence Production—

The CHAIRMAN: We had him here last year, but I do not recall it produced very much results for the opposition members. Let us be satisfied with one minister now.

Mr. FLEMING: Are there any other crown corporations or boards in existence which are not included in these three schedules at the end, besides the wheat board?

Mr. BALLS: Yes, there are several others: the Bank of Canada is not included; the Industrial Development Bank is not included; and there are also several other bodies such as the Halifax Relief Commission and the Eastern Rockies Forest Service Board. The Bank of Canada, of course, is a highly specialized corporation performing important banking functions. Its managerial set-up in relation to the government is set out in considerable detail in the Bank of Canada Act, and it is not expected that it will call upon the government for financial assistance.

Mr. FLEMING: I think it is the other way around, is it not, that the government will call upon them for financial assistance?

Mr. BALLS: The Industrial Development Bank is a subsidiary of the Bank of Canada and it was considered by the minister desirable to treat it on the same basis as the bank itself.

In regard to the Halifax Relief Commission and the Eastern Rockies Forest Conservation Board, those are bodies which have been established by the federal government in cooperation with provincial governments, and as it seemed that arrangements with respect to the control and regulations of such

joint enterprises should not be made unilaterally, but rather on the basis of agreement with the two governments concerned, they were not included in the schedules to the bill. I think those are the principal ones which are not included.

Mr. BRYCE: The Winnipeg Dyking Board?

Mr. BALLS: The Greater Winnipeg Dyking Board and the Fraser Valley Dyking Board were not included.

Mr. FULTON: The Dominion-Provincial Board for the Fraser basin is a board which was set up to study development of the Fraser Valley. What about it?

Mr. BALLS: I am not familiar with that organization, but I suspect it is not a body corporate.

The CHAIRMAN: Is there anything in this part that provides for crown corporations that their books and accounts shall be included in the public accounts in more detail than just the balance sheet?

Mr. BALLS: No.

The CHAIRMAN: That is a question of policy. And the next one: is there any reason why the auditor general would not be the auditor general of such corporations the same as for the regular departments? I shall not ask the witness that question. That would probably be one to ask the minister.

Mr. FLEMING: Have you now given us all the crown corporation or boards having corporate existence which have not been included in the schedule to this Act?

Mr. BALLS: To the best of my knowledge, sir, yes.

The CHAIRMAN: Shall we start with item 76 and go on for another 5 or 10 minutes?

Mr. FLEMING: Shall we not rise at 5.45 o'clock?

The CHAIRMAN: Should we not carry on to 6:00 and try to hurry up the study, because tomorrow, if we have the minister with us, I feel that the meeting will be longer than was expected and that we are still left with 30 sections. Do you mind very much if we carry on until 6:00 o'clock.

Mr. FLEMING: Remember, Mr. Chairman, we started at 3:30 today.

The CHAIRMAN: But you are a strong man.

Mr. FLEMING: You are going to make an old man out of me.

The CHAIRMAN: Section 76?

PART VIII.

CROWN CORPORATIONS.

76. (1) In this Part

- (a) "agency corporation" means a Crown corporation named in Schedule C;
- (b) "auditor" means, in relation to a corporation, the person authorized by Parliament to audit the accounts and financial transactions of the corporation;
- (c) "Crown corporation" means a corporation that is ultimately accountable, through a Minister, to Parliament for the conduct of its affairs, and includes the corporations named in Schedule B, Schedule C and Schedule D;
- (d) "departmental corporation" means a Crown corporation named in Schedule B; and

(e) "proprietary corporation" means a Crown corporation named in Schedule D.

(2) The Governor in Council may by order delete the name of any corporation from Schedule B, Schedule C or Schedule D.

(3) The Governor in Council may by order

(a) add to Schedule B any Crown corporation that is a servant or agent of His Majesty in right of Canada and is responsible for administrative, supervisory or regulatory services of a governmental nature;

(b) add to Schedule C any Crown corporation that is an agent of His Majesty in right of Canada and is responsible for the management of trading or service operations on a quasi-commercial basis, or for the management of procurement, construction or disposal activities on behalf of His Majesty in right of Canada; and

(c) add to Schedule D any Crown corporation that

(i) is responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public, and

(ii) is ordinarily required to conduct its operations without appropriations.

Mr. FLEMING: We will compromise with 10 minutes to six.

Mr. SINCLAIR: There is one reservation about the inclusion under schedule (c) at the back, to be expanded to include or not to include the wheat board.

Mr. FLEMING: We are not passing on the schedules?

The CHAIRMAN: No. We are starting item by item; now, section 76, that is just descriptive and we have had information on that already.

Mr. FLEMING: The question arises with respect to subsection (2) which reads:

"The Governor in Council may by order delete the name of any corporation from schedules (b), (c), or (d)."

I wonder if Mr. Balls could tell us why that power is required.

Mr. BALLS: In view of the possibility, sir, that the nature of the operations of a corporation may change, it well may be that a corporation which at one period may be undertaking what may be essentially an agency corporation operation may be required to undertake operations which are more those of the nature of a proprietary corporation. This sub section (2) of section 76 permits the deletion of the name of a corporation from one schedule and, under subsection (3) it permits it to be listed in another.

Mr. FLEMING: It does not say that if it is deleted from one schedule it must be listed under another.

Mr. BALLS: No sir, that is so.

Mr. FLEMING: I do not follow that. You have given us the reasons, if I understand them, that at some stage or other the Governor in Council may wish to transfer a corporation from its present schedule in the Act to another schedule. But that is not what this section says.

Mr. CLARK: I do not think that the Governor in Council would want to delete a corporation from any of these schedules unless it were putting it into one of the other groups. Now, if you think that the Governor in Council should be restricted or prohibited from deleting a corporation from one schedule unless this, and it is moved into another schedule, I do not think that we would have any objection, or I do not think the minister would have any objection to that, if provided you think it is really necessary.

Mr. FLEMING: I do. Otherwise, there is nothing under this Act to prevent the Governor in Council on the day after this comes into effect from deleting every corporation in schedule (b), (c) or (d) from the whole Act.

Mr. SINCLAIR: Then why would the government put it forward now?

Mr. FLEMING: That is not the test here. Surely, we are not going to enact legislation in a form like this, where that result could follow?

Mr. SINCLAIR: It could, yes.

Mr. FLEMING: Surely the case made out here by Mr. Balls is for some power to shift a corporation from one schedule to another where the functions of the corporation have changed so as to bring it more closely under the general designation of a departmental corporation in one case, or a proprietary corporation in another case. So if there is a change in the nature of a corporation, I think the authority is required to shift it from one schedule to another, and where a change has occurred in the functions of the corporation, that brings its functions under this or that category which is designated in the schedule to which it is proposed to transfer it.

Mr. SINCLAIR: I wonder whether subsections 2 and 3 should not be read in conjunction? Before it can get into the schedule (b), (c) or (d), they first have to delete the corporation from the other schedule. And if there is going to be a change, surely 2 and 3 have to be changed.

The CHAIRMAN: I think that Mr. Fleming has a point as to the wording, I mean, to give real meaning to deleting, or what they want to do. I think that should be reconsidered.

Mr. FLEMING: There is a further point in the light of what Mr. Sinclair said. Subsection 3 is there only to include new corporations coming into existence. I think the purpose of subsection 3 is to deal with new corporations which are not now in the Act, but I do not think we want to legislate so loosely that we put a long list of corporations in this schedule when it would lie within the power of the Governor in Council to take them all out.

Mr. SINCLAIR: Let this stand for the minister tomorrow.

Mr. GIBSON: Is section 77 new entirely?

Auditor General Eligible

77. Notwithstanding any other Act, the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a Crown corporation.

The CHAIRMAN: The whole section is new, yes.

Mr. GIBSON: And the Auditor General is not necessarily eligible?

Mr. CLARK: There are certain cases where the Auditor General under the existing Act would not be eligible to audit certain corporations because of certain provisions in the statutes governing those corporations, but he is made eligible under this legislation.

Mr. GIBSON: What is that?

Mr. CLARK: This bill makes him eligible to act as auditor of any crown corporation though he would have to be appointed in particular cases by Act of parliament; for instance in case of the C.N.R. Act. In other cases he would have to be appointed by the Governor in Council.

The CHAIRMAN: Is there any reason why the office of the Auditor General should not perform such services for all government bodies of that kind?

Mr. CLARK: I think that is a matter on which the Minister himself should speak.

The CHAIRMAN: Section 78.

78. (1) Sections seventy-nine to eighty-eight, both inclusive, apply to agency corporations and proprietary corporations, but in the event of any inconsistency between the provisions thereof and the provisions of any other Act, provisions of such other Act prevail.

(2) This Part does not apply to departmental corporations except as provided in section seventy-six.

Mr. NOWLAN: What is the function of the audit board? How does the audit board act? Does it have responsibility for the financial affairs of the Canadian National Railways, the Canadian Mercantile Corporation, and others of that kind? Does the audit board function at all?

Mr. CLARK: No, it does not. It has been obsolete for 20 or 30 years.

Mr. NOWLAN: There is no supervisory authority in Canada, no body which takes its place?

Mr. CLARK: This Act, by the way, Mr. Nowlan, makes provision for the repeal of that Act.

Mr. NOWLAN: Oh yes, I wondered; it has not been functioning at all?

Mr. CLARK: No, not since the 1920's.

The CHAIRMAN: Section 77?

Carried.

Section 78?

Carried.

Section 79:

79. The financial year of a corporation is the calendar year, unless the Governor in Council otherwise directs.

Mr. FLEMING: On section 79; does this make any change in the financial year of any of these corporations?

Mr. BALLS: There are a number for which this will not make any automatic change because the provisions of special legislation will still prevail: in other words, if the provision of an Act such as that establishing the Canadian Commercial Corporation prescribes the annual report of its current operations as being for the 12 month period ending on the 31st of March, that would still apply.

Mr. FLEMING: I think that is quite clear, but I think there are cases where the special Act of a Crown corporation may not make provision concerning its financial year. My question is will section 79 change the financial year of any of these corporations?

Mr. BALLS: Yes.

Mr. FLEMING: Which ones?

Mr. BALLS: I think that Canadian Arsenals Limited, Canadian Patents and Development Limited, Defence Construction Limited, Commodity Prices Stabilization Corporation, Eldorado Mining and Refining Limited, Northern Transportation Company, and Polymer Corporation Limited; do not have specific statutory provisions with respect to their financial years. But there is, of course, a provision in this section that the financial year shall be the calendar year unless the Governor in Council otherwise directs. It is conceivable that the Governor in Council may direct with respect to some of these that the fiscal year ending the 31st of March shall continue to be the financial year of the corporation.

Mr. FLEMING: In all of these cases that you have mentioned, I think there were seven or eight of them, the financial year is now established by order in council?

Mr. BALLS: No, sir, some of them now have their financial year established under the provisions of the Government Companies Operation Act, section 10 of the Government Companies Operation Act, which will be repealed by this bill.

Mr. FLEMING: May I ask in general about the relationship of the financial year of these Crown corporations to the government fiscal year? What is the argument for and against, say? I am thinking particularly of the relationship they have to public accounts and matters of direct interest to parliament.

Mr. BALLS: Well, I think there are two purposes in suggesting that the general principle should be that the financial year of corporations should be the calendar year; the first is to enable the results of the operations of the corporation for a financial period to be incorporated in the public accounts; in other words, to permit the books and accounts for any year to be closed insufficient time to enable all the results of the years' operations to be recorded in the public accounts. The second, and a most important purpose, is to set a date which is convenient to the Auditor General; because, otherwise, he would be required to conduct not only his audit of the public accounts but also his audit of the Crown corporations, of which he is the auditor, all as of the 31st of March. It is a heavy burden to audit public accounts themselves without requiring these other audits to be done during the same period. If they had to be done during the same period it would be an extremely heavy load.

Mr. FLEMING: Are there any corporations whose financial years end other than on December 31, or March 31st?

Mr. BALLS: Yes, the Canadian Wheat Board which is July 31st, and the Industrial Development Bank which I think is the 30th of September.

Mr. FLEMING: Those are the only exceptions?

Mr. BALLS: To my knowledge.

Mr. FLEMING: To the general rule?

Mr. BALLS: To my knowledge.

Mr. FLEMING: Is there any reason, from Mr. Sellar's point of view, why exceptions should be made of these two? I am thinking about some of the limitations of the powers in section 79 given to the Governor in Council to direct otherwise. I presume that power is broad enough to change the fiscal year of any corporation which is not fixed by its own special Act, and it could mean a heterogeneous variety of dates for the termination of fiscal years in these groups of Crown corporations. Would that be desirable?

Mr. SELLAR: Well, sir, there is one of the companies that had a date the end of August. That was the Sugar Stabilization Corporation; and Mr. Balls was erroneous when he spoke about Eldorado; that is December 31st. The other is the Northern Transportation, on December 31st; and that is the date they had when they were an Ontario corporation, privately owned, and we have continued that. Now then, in reply to your question: The big advantage of December 31st, is because the ordinary man thinks of the financial year very much in terms of the calendar year. The second advantage of December 31st, apart from that one thing, is that if we had to audit all the reports within three months from the first of January, they would come before parliament—they would have to be tabled within 15 days after—in other words by the 15th of April; so there is really a big advantage in having December 31st. Now, as to these other dates, the Wheat Board is dictated by the old practice of the grain trade. The grain trade uses the crop year. In the sugar trade it was similar. I don't know about the bank, I suppose it was fixed when it was incorporated.

Mr. CLARK: No, it actually was not done until some time after it was incorporated. We thought when we started off that we would have the fiscal years of the two corporations ending on the same date, that is, on December 31st, but we found it was just not possible to get the audit of the Industrial Development Bank ready in time for the annual meeting of the Bank of Canada if the fiscal year of the I.D.B. ended on December 31st, so we put it back three months, that is to say, to September 30th.

Mr. WRIGHT: In regard to the wheat board, I wonder if that would not be the crop year?

Mr. CLARK: The crop year is used there.

Mr. WRIGHT: The crop year ends July 31st, the weighover in the elevators must take place at the time when there is the least grain in them.

Mr. FLEMING: Then the only two exceptions under this particular heading would be the wheat board and the one you mentioned, I think it was the Sugar Stabilization Corporation?

Mr. CLARK: That has been wound up.

Mr. SELLAR: That has been wound up. I was just giving you an illustration. That was dictated by the practice in the sugar trade, just the same as in the grain trade, which is for the end of the crop year.

Mr. FLEMING: It comes down to this then, that the wheat board is the only Crown corporation which has a fiscal year ending other than on December 31st or March 31st?

Mr. BALLS: And the Industrial Development Bank.

Mr. FLEMING: I am concerned about the wording in this section, about the power in section 79 where it says, "unless the Governor in Council otherwise directs". I wonder if there should not be some limitation there having regard to the general desirability of adhering to one date or the other, either December 31st, or March 31st?

Mr. SELLAR: You are looking at me, sir. I will try to answer, although I may not know the answer. The situation may be that a body is so connected with Mr. Howe's department of Defence Production that it may be financed by advances from his votes, and it may be more convenient to have its fiscal year end March 31st to tie in with the Department of Defence Production. That is, I think, what they had in mind when they put in that reservation.

Mr. CLAK: That is one of the reasons. I think probably there is another reason as well. I think that if it were practicable it would be desirable to have all Crown corporations have their year end on the same date as the government fiscal year ends, namely March 31st, because then you would have the complete story of all government business for the same 12 month period. Now, it is not practicable to do that because of the factors that Mr. Balls mentioned for practical reasons. We have to go back in a great many cases to December 31st. You will find, I think, that the general practice established under this will be December 31st. There will be a few corporations whose fiscal year will end on March 31 where it is practicable and, as I said, desirable. There will be one or two, one the Wheat Board and the Industrial Development Bank, where for other good and efficient reasons, will have some other year-end. I believe however the desire of the Governor in Council will be to get as high a degree of uniformity as is practicable.

The CHAIRMAN: Shall we pass on to item 80?

Mr. SELLAR: Mr. Cairman, may I say a word in order to complete my statement. I overlooked the National Harbours Board. Its financial year ends on December 31 now. It is listed here.

The CHAIRMAN: Shall we pass on to item 80?

Mr. FLEMING: There will be a lot of questions on section 80 on this matter of operating budget. This is a good place to adjourn, I would say.

The CHAIRMAN: Mr. Fleming moves we adjourn. I want to ask something from the parliamentary assistant: would it be considered advisable to wind up our study of the bill and then call the minister, after having set aside

all the items that members want particularly to ask him questions on, rather than have him come immediately, before our work on the bill is finished.

Mr. SINCLAIR: He would appreciate that because he has been away so long it is a hard job for him to catch up on his work.

The CHAIRMAN: Then we will carry on this study of the bill at the next meeting and at the following meeting, or as soon as possible, ask the minister to come.

Mr. FLEMING: I would suggest we could save time if he would come here first and let him make a statement or be asked questions on the matters that members want to ask him questions on, and then he does not need to stay for the review of the other sections.

Mr. WRIGHT: As far as I am concerned, the questions that I would have to ask the minister and his answers would not take more than 15 minutes.

The CHAIRMAN: The point is this, that we could not have had the minister from the first clause and ask him to be with us all the way through, but I think as soon as we have dealt with the bill satisfactorily—up to now most of the questions are administrative questions and technical questions answered by officials—we should carry through as we have done up to now, and when we are through with the bill and want to go into questions of policy the minister shall be called.

Mr. JUTRAS: May I remind you the House is sitting at 11 o'clock tomorrow morning.

The CHAIRMAN: Then we will meet tomorrow morning immediately after the orders of the day are called.

Mr. FLEMING: With regard to asking questions of the minister, I gather the minister is open to answer any questions on any item in the bill.

The CHAIRMAN: I am not ruling on that. We held certain items open for him and we shall ask him on these, but if members have any other questions they can ask them, too.

Mr. FLEMING: But the whole bill is open for members to ask him questions on?

The CHAIRMAN: Yes.

HOUSE OF COMMONS

Fifth Session—Twenty-first Parliament

1951

(Second Session)

Government
Publications

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

CHAIRMAN—MR. L. PHILIPPE PICARD

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

BILL 25

An Act to Provide for the Financial Administration of the
Government of Canada, the Audit of the Public Accounts
and the Financial Control of Crown Corporations.

WEDNESDAY, DECEMBER 12, 1951

WITNESSES

Mr. Watson Sellar, Auditor General.

Dr. W. C. Clark, Deputy Minister of Finance.

Mr. R. B. Bryce, Assistant Deputy Minister of Finance.

Mr. R. B. McIntyre, Comptroller of the Treasury.

Mr. H. R. Balls, Special Assistant (Accounting), Department of Finance.

Mr. D. H. W. Henry, Solicitor to the Treasury.

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1951

REPORTS TO THE HOUSE

THURSDAY, December 13, 1951.

The Standing Committee on Public Accounts begs leave to present the following as a

SECOND REPORT

Your Committee has considered Bill No. 25, An Act to Provide for the Financial Administration of the Government of Canada, the Audit of the Public Accounts and the Financial Control of Crown Corporations, and has agreed to report the said Bill with amendments.

A copy of the Evidence adduced in respect of the said Bill is appended hereto.

All of which is respectfully submitted.

L. PHILIPPE PICARD,
Chairman.

THURSDAY, December 13, 1951.

The Standing Committee on Public Accounts begs leave to present the following as a

THIRD REPORT

Your Committee recommends that the annual reports of all Crown Corporations be published together in one section of the Public Accounts.

Your Committee further recommends that the annual report of every Crown Corporation should be referred for study to a select committee of the House.

All of which is respectfully submitted.

L. PHILIPPE PICARD,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, December 12, 1951.

The Standing Committee on Public Accounts was to have met at 11.30 o'clock a.m., but the division bells having rung at that time the Committee met at 12.15 o'clock p.m. this day.

Mr. Picard, Chairman, presided.

Members present: Messrs. Ashbourne, Boisvert, Browne (*St. John's West*), Cavers, Cloutier, Fleming, Fraser, Fulford, Fulton, Gauthier (*Portneuf*), Helme, Jutras, Kirk (*Digby-Yarmouth*), Macdonnell (*Greenwood*), Major, Richard (*Ottawa East*), Sinclair, Wright.

In attendance: Mr. Watson Sellar, Auditor General; Dr. W. C. Clark, Deputy Minister of Finance; Mr. R. B. Bryce, Assistant Deputy Minister of Finance; Mr. B. G. McIntyre, Comptroller of the Treasury; Mr. H. R. Balls, Special Assistant (Accounting), Department of Finance, and Mr. D. H. W. Henry, Solicitor to the Treasury.

The Committee resumed consideration of Bill No. 25, An Act to Provide for the Financial Administration of the Government of Canada, the Audit of the Public Accounts and the Financial Control of Crown Corporations.

Part VI of the bill relating to *Public Accounts*, being clauses 63 and 64, was called, considered and adopted.

Clauses 80 to 88 inclusive, of Part VIII of the bill relating to *Crown Corporations*, were called.

During the proceedings the witnesses answered questions specifically referred to them.

At 1.00 o'clock p.m. the Committee adjourned to meet again at 2.45 o'clock this day.

AFTERNOON SESSION

The Committee resumed at 2.45 o'clock p.m. Mr. Picard, Chairman, presided.

Members present: Messrs. Anderson, Ashbourne, Benidickson, Blue, Boisvert, Browne (*St. John's West*), Campney, Cavers, Cleaver, Cloutier, Croll, Denis, Fleming, Fraser, Fulford, Fulton, Gauthier (*Portneuf*), Helme, Jutras, Kirk (*Digby-Yarmouth*), Macdonnell (*Greenwood*), Major, Noseworthy, Richard (*Ottawa East*), Sinclair, Wright.

In attendance: As indicated for the morning session.

Clause 76 of Part VIII of the bill relating to *Crown Corporations* was called and it was agreed that subclause (2) thereof be amended by adding after the words "Schedule D" the words *and shall thereupon add the name of that corporation to the appropriate schedule in accordance with subsection three.*

Clause 76, as amended, was adopted.

Clauses 80 to 88 inclusive of Part VIII of the bill relating to *Crown Companies* were again called.

At 3.25 o'clock p.m., the division bells having rung, the proceedings of the Committee were interrupted. The Committee resumed at 3.45 o'clock p.m.

Clauses 82 to 88 inclusive were again called.

Clauses 82, 83 and 84 were considered and adopted.

On Clause 85:

Mr. Wright moved:

That clause 85 be amended by the addition thereto of a new subparagraph (4), and that the present subparagraph (4) be re-numbered (5). The new subparagraph (4) to read: "That at each session of Parliament the annual reports laid before Parliament for that year for companies in Schedules C and D shall be submitted to a Standing or Special Committee of the House for its consideration."

At 3.55 o'clock, the division bells again having rung, proceedings of the Committee were interrupted. The Committee resumed at 4.20 o'clock p.m.

Clause 85, and Mr. Wright's amendment thereto were called.

After discussion the Chairman ruled the amendment out of order on the grounds that it was beyond the power of the Committee to give direction to the House by incorporating in an Act of Parliament a section laying down the action to be taken with respect to certain documents tabled in the House, and further, that if any such direction were to be given it would, of necessity, have to be by way of an amendment to the Standing Orders of the House.

Thereupon Mr. Sinclair moved that subclause (2) paragraph (a) of clause 85 be amended by deleting the word "expenditure" in line 32 thereof and inserting the word *expense*.

After discussion the said amendment was agreed to.

Clause 85, as amended, was adopted.

Clause 86 was called, considered and adopted.

On Clause 87:

Mr. Sinclair moved that subparagraph (iii) of paragraph (b) of subclause (1) be amended by deleting the word "expenditure" where it occurs in lines 25 and 26 thereof and inserting therefor the word *expense* in each case.

After discussion the said amendment was agreed to.

Clause 87, as amended, was adopted.

On Clause 88:

Mr. Fulton moved that the said clause be amended by adding the word *forthwith* after the word "made" in line 47 thereof.

After discussion the said amendment was agreed to.

Clause 88, as amended, was adopted.

By unanimous consent the Committee reverted to clause 31 of Part III of the Bill in relation to *Public Expenditures*, and after discussion the said clause was allowed to stand until the next meeting of the Committee.

Part IX of the bill relating to *Civil Liability and Offences*, being clauses 89 to 94 inclusive, was called, considered and adopted.

Part X of the bill, *Miscellaneous*, being clauses 95 to 100 inclusive, was called, considered and adopted.

Part XI of the bill, being clauses 101 and 102, was called, considered and adopted.

Schedules A to E inclusive were severally called, considered and adopted.

The Committee then reverted to Clause 71 of Part VII of the bill relating to The Auditor General.

After discussion it was agreed that the said clause be amended by deleting the words "undertaking or service" in line 33 thereof and inserting therefor the words *person or organization*.

Clause 71, as amended, was adopted.

During the course of the proceedings the witnesses answered questions specifically referred to them.

At 6.05 o'clock p.m. the Committee adjourned to meet again at 8.30 o'clock p.m. this day.

EVENING SITTING

The Committee resumed at 8.30 o'clock p.m. Mr. Picard, Chairman, presided.

Members present: Messrs. Ashbourne, Cauchon, Cavers, Croll, Fleming, Fraser, Fulford, Gauthier (*Portneuf*), Gibson, Helme, Jutras, Kirk (*Digby-Yarmouth*), Macdonnell (*Greenwood*), Major, Sinclair, Wright.

In attendance: The Honourable D. C. Abbott, K.C., Minister of Finance, and the same witnesses as indicated for the morning session.

Clause 1 of Part III of the bill relating to *Public Disbursements* was called.

Mr. Sinclair moved that subclause (6) of the said clause be amended by deleting the whole of subclause (6) and inserting therefor the following:

31 (6) Whenever the Comptroller is of the opinion that a doubt exists as to the legality or otherwise of a proposed charge to an appropriation provided for the expenses of the Senate, the House of Commons or the Library of Parliament, he shall forthwith, through the Minister, draw the matter to the attention of the appropriate Minister who shall obtain a decision in accordance with such procedure as may from time to time be prescribed by the Senate or the House of Commons as the case may be or, in the case of the Library of Parliament, by the Senate and the House of Commons, and the Comptroller shall act in accordance with the decision.

After discussion the said amendment was agreed to.

Clause 31, as amended, was adopted.

Clauses 38 and 39 of Part III of the bill relating to *Public Disbursements* were called, considered and adopted.

By unanimous consent the Committee reverted to Clause 77 of Part VIII of the bill relating to *Crown Corporations*.

After discussion Mr. Kirk (*Digby-Yarmouth*) moved that the present clause be re-numbered subclause 77 (2) and that there be added a new subclause, to be subclause 77 (1), and to read as follows:

77 (1) Where, in respect of a Crown Corporation

(a) no provision is made in any Act for the appointment of an auditor to audit the accounts and financial transactions of the corporation, or

- (b) the auditor is to be appointed pursuant to the Companies Act, 1934, the Governor in Council shall designate a person to audit the accounts and financial transactions of the Corporation.

The amendment was adopted.

Clause 77, as amended, was adopted.

The Title was considered and adopted.

The Bill, as amended, was adopted, and the Chairman ordered to report the said bill to the House with amendments.

During the proceedings the Hon. Mr. Abbott answered questions in respect of certain clauses of the Bill.

The Committee then approved a draft report submitted by the Chairman.

Mr. Wright then moved that the Committee submit a separate report to the House recommending that the annual report of every Crown Corporation should be referred for study to a select committee of the House.

Mr. Sinclair moved that the motion of Mr. Wright be amended by adding thereto, "and that the annual reports of all Crown Corporations be published together in one section of the Public Accounts".

After discussion the amendment was agreed to.

The motion as amended was agreed to, and the Chairman ordered to make a separate report to the House incorporating the said recommendations.

At 10.00 o'clock p.m. the Committee adjourned to the call of the Chair.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

HOUSE OF COMMONS,
December 12, 1951.

The CHAIRMAN: Gentlemen, the meeting will now come to order. I think we should go on and take up today, with your consent, items 63 and 64 on page 19 which were left in abeyance yesterday at the request of Mr. Macdonnell. I wonder if the Auditor General would step forward because these articles deal with public accounts and concern him to a certain extent.

Item 63.

PART VI

PUBLIC ACCOUNTS

63. (1) The Minister shall cause accounts to be kept in such a manner as to show,

- (a) the expenditures made under and commitments chargeable against each appropriation,
- (b) the revenues of Canada, and
- (c) the other payments into and out of the Consolidated Revenue Fund.

(2) Subject to regulations of the Treasury Board, the Minister

- (a) shall cause accounts to be kept to show such of the assets and direct and contingent liabilities of Canada, and
- (b) may establish such reserves with respect to the assets and liabilities, as in his opinion are required to give a true and fair view of the financial position of Canada.

(3) The accounts of Canada shall be kept in the currency of Canada.

Mr. MACDONNELL: This raises the whole question, Mr. Chairman, of the method by which public accounts are kept. I wonder if I might ask a general question, particularly in view of the fact that this Act if published would set up a system which is likely to prevail for a long time: How far was consideration given to substantial alterations in the method of keeping public accounts which at the present, as you know, are purely on a cash basis?

I have here a report of a committee appointed at Westminster. It is called "Final Report of the Committee on The Form of Government Accounts", which discusses this question. Nobody pretends you could easily shift over to the ordinary business system which is called the income and expenditure basis; but I would like to ask how far those who prepared the bill considered whether some approach to methods prevailing in ordinary business enterprise might be made. I ask whether they have considered that, and whether they feel that anything can be done.

I think we all feel there is a certain anomaly in dumping everything that comes in into one pot and treating it as though it was all of the same nature. I think I have said enough to indicate my question, but I would like to ask whether in the preparation of the bill any opinion was asked from outside bodies, such as the Institute of Chartered Accountants, if I have got the right name.

Mr. CLARK: This is a problem, of course, that has been under very active consideration over a great many years, and it is a problem which comes up constantly in our own discussions in the department. I think it is a question, as you have said, Mr. Macdonnell, which has been decided on the basis of a substantial adherence to the cash accounting system. We depart from it in one or two respects but in so far as the government's own accounts are concerned, the cash accounting basis is predominant. That is so because we think it is the only way, really, in which you can get effective control by parliament over public moneys and over the expenditure of public moneys.

That I think is the decision that has been reached by the British committee to which you refer. That committee was appointed in 1947 and it made its report in 1950. They had before them representatives from many accounting bodies as well as from other experts, and they considered this thing very carefully and reached the conclusion which we have reached as a result of experience over quite a number of years.

I would like to call particular attention to appendix D in that report where they discuss the differences that exist between considerations relevant to commercial accounting and considerations relevant to accounting for government transactions. I would like to quote two or three sentences in it.

The CHAIRMAN: Might I say, Dr. Clark, that since we do not have that report, would you mind, when you refer to a clause, reading it so that all the members may know what it is all about, because we cannot get copies of this report.

Mr. CLARK: The report I am referring to is "The Final Report of the Committee on the Form of Government Accounts". It is the report of the so-called Crick Committee appointed by the British Government in 1947 to consider mainly this question, although they considered as well as a number of allied questions.

I referred a moment ago to appendix D of the official report which is devoted wholly to a discussion as to whether the principles applying to ordinary business and commercial accounting are appropriate for government accounting. They reached a negative decision; they confirmed the practice which has been followed by the British Government in substance for a great many years, and the practice that we have followed.

I should perhaps point out, lest I be misunderstood, that they as well as we think that those crown corporations which perform business operations should come under the ordinary type of business or commercial accounting, accrual accounting rather than income and expenditure accounting. But I shall speak primarily of government accounting as such. As I was saying, I would like to read one or two sentences from this appendix.

In paragraph 2 of that report they speak of the requirements of the law and they say:—

The requirements of law in respect of government accounting are in many ways unique; both the statutes and the rules and practices approved thereunder by the Treasury and accepted by the Comptroller and Auditor General are devised for a different purpose—the purpose, namely, of ensuring effective control by the House of Commons, as representing the community of taxpayers, over all spending for which it provides the money year by year in one way or another. When this difference is noted it becomes less irrational or archaic than some critics would seem to suggest that government accounting should still be conducted on a "cash basis".

A little further on, in paragraph 6, the report reads:—

In contrast, all the activities, however varied their nature, of a business undertaking are directed to one central purpose; the maintenance, over a long run, of such a surplus of current revenue over

current outlay as will at least keep the invested capital intact and allow of periodical distributions to the proprietors.

I quote that sentence to contrast it with the purpose of government accounting stated in the first sentence I read.

Now I would like to read paragraph eleven, the last paragraph in this appendix which relates to liability accounting.

A further disparity arises from the difficulty of attaching to the word "liabilities" in the context of government finance a meaning which, while sufficiently comprehensive, is closely comparable with what is understood by the word in relation to a business undertaking. One type of government liability on which it is particularly hard to put a figure arises from costed contracts and similar arrangements, where final payments may of necessity not be determinable until some time after completion of the work of delivery of goods. Another is the capital liability in respect of superannuation payments to employees of the government, the scale of which—and indeed the continuation of which on any scale—is entirely within the will of parliament to determine at any time it may seem fit. A still more striking contrast between government and business arises from the system of what may be called "delegated expenditure". Substantial amounts of government outlay take the form of grants to local authorities or other agencies, the computation of which is impracticable until the total expenditure of the agency has been determined. It is true that the best-informed "guess" has nevertheless to be made, for the purpose of the department's estimates, of the prospective outlay on this account during the year; but figures thus arrived at can hardly be firm enough for inclusion in accounting records leading up to a balance sheet. Further, the extent to which such subventions may ultimately take the form of grants on the one hand and recoverable loans on the other is sometimes impossible to foresee with substantial accuracy. There is nothing quite comparable in business with "liabilities" of this kind; and a reasonably reliable and inclusive estimation of liabilities at the beginning and end of each period is an indispensable element in efficient business accounting. Government liabilities are, much more than those in business, matters of policy rather than of contract; policy may undergo radical changes, often under pressure of unforeseeable circumstances; and the ultimate liability in respect of any particular provision—for example, war damage payments and the financing of local authorities' emergency housing activities—frequently turns out to be far different from the sum originally envisaged.

I could read what they say on the assets side, and develop for you certain differences between business and government accounting from the asset point of view but I am not going to take your time to do that. All I wish to suggest is that a very competent committee went into this problem very fully in the United Kingdom and we were interested to see that this Committee came to exactly the same conclusions that we have come to arising out of our experience over a good many years. I would also like to refer to the decision of the British government. According to the British *Hansard* of June 21, 1951, Mr. Benson asked the Secretary to the Treasury whether he was in a position to indicate the views of His Majesty's Government on the recommendations of the Final Report of the Committee on the Form of Government Accounts, and this is what Mr. Jay replied:

Mr. Jay: Yes. His Majesty's Government find themselves in substantial agreement with the views of the committee on the main questions canvassed in their report. In particular, they entirely agree

with the central conclusion of the committee that government accounts as a whole should remain on a cash basis. They regard this verdict by an expert and authoritative body of the standing of the committee, including as it did eminent members of the accountancy profession, as of great importance.

In a word, we are also convinced that the basis for effective control over expenditures of public moneys by parliament is a cash accounting system. When going over the provisions of some of the earlier parts of this bill, I called your specific attention to the fact that the definitions of consolidated revenue fund and public moneys and several sections in the disbursements part of the bill relating to estimates and appropriations, and so on, all speak in terms of a cash basis. We believe very strongly that if we were to change from that basis to accrual accounting, including depreciation charges and all the rest of it, we would greatly confuse the issue, make it more difficult for parliament to follow the financial operations of government and maintain its control.

Mr. MACDONNELL: I would not argue against a word that you have said because it seems to me that is borne out by the report of this committee, though they were to some extent tied because in the term of reference it says "the committee should assume the continuance of the system of parliamentary accounting". It seems that their own argument, as you have indicated, would substantiate that for the very purpose of maintaining parliamentary control—that is what you said—the present system in substance and in name has to be maintained. On the other hand, they do suggest throughout this report certain ways in which some minor departures from the pure and unadulterated system of cash accounting could give a more illuminating account, a better picture of the public finances. Now, do you in fact propose to make any changes? Are there any changes contemplated in the system at all?

Mr. CLARK: I would say, Mr. Chairman, that we have already, for some years, gone a good deal further than the British in some respects, and we will, I think, try to keep on improving our accounts and our accounting system as much as possible, taking advantage of any suggestions in that report that do seem to be applicable to Canadian conditions and which will help the main purpose we all have in mind. However, we already give in our public accounts a tremendous amount of information. We have a statement of assets and liabilities that goes considerably beyond what the British do. The British really give lists of certain items, they set up lists of certain categories of assets and lists of certain liabilities. We have gone further than that and we will, I hope, as time goes on be able to find some further improvements that we can make, designed to give parliament, more comprehensive information, and perhaps information in a better and more easily intelligible form than we have ever done in the past. Mr. BALLS, are there any or the other specific recommendations in the British report that we have already incorporated in this bill?

Mr. BALLS: Well, I think that the principal ones relate to the public stores. The Crick Committee did make some recommendations with respect to the operation of trading accounts and suggested they might come under what they call the "income-and-expenditure" basis, or what we call the accrual basis of accounting. We have in our public stores part, I think, provided for the operation of certain revolving funds along the lines which the Crick Committee had in mind. I think, for the main part, the recommendations which the committee has made with respect to certain advances or changes towards the accrual basis are more to come up to the standards, to the progress that we have made in that direction.

Mr. MACDONNELL: I suppose the most important thing is to know whether there have been such amounts of capital coming in or going out in any one year that it would present a distorted picture. Now, I suppose that apart from war

assets and other things resulting from war there may not have been such large amounts of capital income or capital outgo as would throw the accounts out of balance. I suppose our large defence expenditure now is of that nature to some extent, but the minister has rather attempted to keep the two kinds of expenditure separate for the purpose of explaining the situation to us.

Mr. CLARK: We always report them separately.

Mr. MACDONNELL: Did you find during the war, for example, that there were such capital income and outgo distorting the position?

Mr. CLARK: No, I would think not, Mr. Chairman, and remember that some years ago we got away from the old system which had been used for a good many years. For a long time Canada had a system of separating the capital receipts and capital from so-called current receipts and current expenditures and reporting a budgetary surplus on the basis of what were recorded as current revenues and current expenditures although of course there is always a good deal of judgment that can be used in determining whether to put certain items above or below the line. I remember shortly after I came here I had a Minister of Finance who wanted to get rid of this bridge score method of budgeting altogether, and he cut out that distinction between current account surplus and over-all surplus. That old system was subject to a substantial amount of abuse. I think if you go back over the history of Canada you will find a good many cases where a very arbitrary judgment was used in deciding what was to be put into the capital account, depending on whether it was desired to show a surplus that was large or small, as the case might be.

Mr. MACDONNELL: Railway subsidies, for example?

Mr. CLARK: We thought we had made a distinct improvement when we got away from that kind of thing.

The CHAIRMAN: Any further questions on item 63?

Mr. FLEMING: I suppose this question of mine relates as much to the crown corporations—in the explanation Dr. Clark has given I wonder could he designate for us the crown corporations which follow the government method of cash accounting and those that follow the system of accrual accounting?

Mr. BALLS: Well, Mr. Chairman, I think that it is a rather difficult question to answer. I may say I think that possibly the Auditor General may be able to give us a better answer. Still, I think that you will find for the most part the crown corporations do follow accrual accounting, possibly a modified accrual accounting basis. In some cases I think capital assets are set up and probably normal depreciation practices apply. There may be certain cases—I think probably Crown Assets Disposal is an example in which capital assets are not set up and depreciated. However, without an examination of each individual account, Mr. Fleming, I am afraid I cannot give you any more of an answer than that.

The CHAIRMAN: I would not like to limit questions here but we will in a short while revert to item 80 which is in the Crown corporations part, and I would like to have all questions on Crown corporations at that time—so that we may deal with these matters in an orderly way. We will carry on with the public accounts part if you do not mind.

Mr. FLEMING: One other question in connection with this part. It has to do with the showing in the accounts of properties owned by the government. We have discussed this in the Public Accounts Committee before, as to the desirability of the public accounts containing more information about the properties owned by the government. Are there any departures contemplated by the department in that respect in the preparation of the public accounts?

Mr. CLARK: I think I can say, in answer to Mr. Fleming's question, that we have given a great deal of consideration to this problem. You will note that in

an earlier section of this bill there is provision for the Treasury Board to make regulations in regard to keeping of those property records. We will give it a good deal more consideration yet before we finalize our views on the matter. After such study as we have been able to give it so far, I would think it would shape up something like this. First we would be inclined to believe we should be careful not to undermine the responsibility of the various departments for their own administrative functions in regard to the particular prices of real property that come naturally within their jurisdiction—for instance those under Resources and Development. I do not think we in the Treasury Department, for instance, should be given the responsibility for maintaining that record, either duplicating what Resources and Development are doing, or alternatively interfering with them and doing it ourselves.

We are inclined to believe we can work out a system whereby undivided responsibility for the administrative job remains with the department itself. However, we would have regulations requiring the various departments to maintain ample records and providing for some degree of uniformity in the way in which they maintain their records. Under such a system, be the Comptroller of the Treasury's Officers in the various departments would assist departmental officials in maintaining the records and in submitting copies of the essential records to the Department of Finance. We could then maintain these copies in the Finance Department, either in the Comptroller's division or in our own accounting division—and report in the public accounts on a basis that would be as revealing to parliament as we could make it. Perhaps we would not need to give a list of every single piece of land, its legal description, and so on, which I think would probably be so voluminous that nobody would read it. However, we are still thinking of the problem and I am sure we can go a very long distance in meeting what you have in mind.

Mr. FLEMING: Can you be a little more specific, Dr. Clark, as to when it is likely your efforts in that regard will result in some change in the public accounts and the form in which they are reported?

Mr. CLARK: If this bill is passed at this session we intend to spend the next two or three months in working out the various sets of regulations which will now be required for the first time, including this one, and my own hope would be that we can have this Act proclaimed say from the beginning of the next fiscal year—April 1st next. Certainly I think we should be able to include this information in next year's accounts. It may not be possible in all respects to include it this year—the present fiscal year—which will be reported in the next volume of public accounts. I would ask Mr. McIntyre if he thinks we can go further than that.

Mr. MCINTYRE: I am quite sure, sir, that you cannot hope to get anything very complete until the accounts for next year—1952-53. There is much work to be done and it will vary from department to department. It first depends very much on the state of the department's present records and the amount of time that it will take to complete the records.

Mr. FLEMING: Is it fair for us to hope that we may find reports giving reasonable information in the public accounts for the fiscal year ending March 31st, 1953?

Mr. CLARK: Yes.

Mr. MCINTYRE: I should think so.

Mr. FULTON: In answer to a question by Mr. Macdonnell, Mr. Balls mentioned there was one change made along the lines of adopting this revolving fund method of accounting. I wonder if I might ask a question about that?

The CHAIRMAN: Would you mind speaking a little louder?

Mr. FULTON: I have noticed that the schedule of Acts to be repealed includes the Department of Transport Stores Act. I have assumed that is because the general set-up of the accounting system now to be instituted provides for that method of accounting and keeping your accounts, without the necessity of a special Act in any one department. I personally have never, and I do not mind confessing it, quite understood the revolving fund principle. I have never been sure that the method does give parliament more control over expenditure, which I understood was the object of the general change you are now making.

I would ask Mr. Balls if he would, and if not him one of the other witnesses, comment and say where provision is found in the bill before us which makes the revolving fund, as I understand it, of general application—and therefore removes the necessity for any special Act? Second, would you say a word about the revolving fund system generally, so that we may understand it better.

Mr. BALLS: First of all I think I did mention yesterday that this public stores part does not automatically provide for the creation of revolving funds. We are proposing in the bill to repeal the Department of Transport Stores Act but in Section 101 of the bill there is specific provision authorizing the continuance of the Department of Transport stores account and also provision for setting the maximum amount that may be charged to that account at any one time of \$4 million.

Mr. MACDONNELL: If I may interject a question, why is that dealt with specially?

Mr. BALLS: If it were not, and if we repealed the Department of Transport Stores Act, sir, without making special provision for the continuation of the operation, there would be no authority for the continued operation of the Department of Transport stores account.

Mr. MACDONNELL: Not in your section here?

Mr. BALLS: No. I was going to say that the bill itself provided for the continued operation of the Department of Transport Stores Act but it does not automatically set up revolving funds for every department. Those will require special authority of parliament possibly through the inclusion of a special item in the estimates—first, authorizing the department to establish a revolving fund, and second, fixing the maximum amount that might be charged to the account at any time.

Once a departmental revolving fund had been authorized it would not be necessary to seek authority in succeeding years for its continued operation unless it were proposed to increase the amount of the fund.

Mr. FULTON: The method of bookkeeping involved or the method of reflection of that in the public accounts is covered by some general part of this Act? Is it covered by Section 63?

Mr. BALLS: In our public stores part, and specifically Section 58, there is provided a description of the mechanism for the operation of a revolving fund when one has been authorized to be operated by a department.

The CHAIRMAN: May I point out we dealt with this at length yesterday.

Mr. FULTON: I was going to ask Mr. Balls if he had made a statement on that?

The CHAIRMAN: Yes, you will find it in the report of our proceedings.

Mr. FULTON: In the answer you just gave you said it would be done in future or could be done by an item in the estimates. Would that be another of these \$1 items having legislative effect, about which we have heard before?

Mr. BALLS: I would think not, sir. I think it would be an item in the Loans and Investments section of the estimates, authorizing the moneys to be advanced by the department for the purpose of acquiring stores, and it probably

would be included in the estimates at the amount which parliament was proposing to permit the department to spend.

Mr. CLARK: I think I might add to that, that this is the legislation. This bill provides the real basic legislation and by an item in the estimates you only bring one more department in under it. This provides the regulatory power for that sort of thing.

The CHAIRMAN: Shall item 63 carry?

Mr. FLEMING: Now that Mr. Fulton has raised the \$1 items that have legislative effect, could we ask Dr. Clark what this bill contains to safeguard that practice which this committee has frowned on in its more recent reports?

Mr. SINCLAIR: Just a minute, Mr. Fleming. "Frowned on"—in our recent reports we have pointed out that there were occasions where the \$1 item had to be used.

Mr. FLEMING: I used the words "frowned on" deliberately. The committee did not condemn out of hand the practice of legislating by means of \$1 items in the estimates but it expressed disapproval of the practice in general. It did not say that it could never be followed in some special case.

The CHAIRMAN: The committee thought this practice should be curtailed or used only to solve problems that could not be solved otherwise.

Mr. CLARK: Mr. Chairman, I think it is hardly a point that can be dealt with by legislation. I do not see how you can effectively deal with it by legislation, but perhaps Mr. Abbott might speak on that.

Mr. FLEMING: There is nothing in this bill that can be said to deal with that problem?

Mr. MACDONNELL: Going back to this section Mr. Clark read, and to develop the reasons for the pure cash basis—this appears on page 17 of that report—I would like just to read a short excerpt from it and ask Mr. Clark if perhaps he would explain it. I do not think it is very serious, it would not be regarded as being very serious; but it is a sentence at the middle of paragraph 37, referring to the cash basis and it says: "it may thus have the effect of curtailing the year's expenditure and even, conceivably, of avoiding a supplementary estimate or an excess vote—" and so on.

The CHAIRMAN: Why don't you complete the sentence: "though this procedure would raise difficulties in regard to the estimates for the succeeding year,".

Mr. MACDONNELL: That is right.

The CHAIRMAN: It is better to complete the sentence.

Mr. MACDONNELL: I think that would be very clear. It would raise difficulties for the next year.

The CHAIRMAN: Yes.

Mr. MACDONNELL: I just wanted to know whether there are ways of guarding against that, that there might be distortion. I don't suggest that there would be, or that it would be very serious, but I want to know whether the deputy minister or the comptroller feels it should be guarded against.

Mr. MCINTYRE: Section 35 (b) provides a 30 day period beyond the end of the fiscal year for the payment of accounts belonging to that year before the books are closed.

The CHAIRMAN: That is section 35 of this Act?

Mr. MCINTYRE: Yes.

Mr. MACDONNELL: Yes, I know that.

Mr. CLARK: Mr. Macdonnell, if you read on in that paragraph you will find there this sentence: "the first line of defence against distortion of this

kind is to be sought in adherence to principle and in prompt and effective control and audit”.

Mr. MACDONNELL: That is exactly why I am asking the question, just to see what you have done on that point.

Mr. CLARK: Yes. Mr. McIntyre, would you answer that?

Mr. MACDONNELL: I am not saying that they are quite substantial ones but I do think it would be helpful if we had a complete answer on that point.

Mr. MCINTYRE: In our practice, in our experience, we have found that 30 days is sufficient, quite ample, in which to complete payments and bring the accounts into balance as of the end of the fiscal year. I should say in practically all cases. There are always a certain number of accounts that will be delayed for two or three months, but usually they are small amounts.

Mr. CLARK: I might add also on this point that the present tendency is the reverse of that, it is to speed up payments.

Mr. MACDONNELL: Have they got that 30 day period in England?

Mr. MCINTYRE: No, I do not think so, unless it has been introduced recently.

The CHAIRMAN: Shall section 63 carry?

Carried.

Shall section 64 carry?

Mr. FLEMING: I have one question on section 64. Is December 31st the earliest date on which public accounts can be prepared, assembled and printed?

Mr. CLARK: Mr. Fleming, I think the answer to that is that it is the earliest date that we can be sure of. We may, we hope we will, in certain years at any rate, be able to bring it down somewhat more quickly. This year we got it down on the 10th.

Mr. MCINTYRE: Yes.

Mr. CLARK: We will try to bring it down as much as we can in advance of that date, if the volume can be printed.

Mr. SINCLAIR: The King's Printer has pointed out that when parliament is not in session there is not the pressure to print all these *Hansard* reports, but when parliament is sitting then the pressure sometimes is very great. It is only in cases of special urgency that we get them down much in advance of that date. We had them down for December 10th of this year, you will recall.

The CHAIRMAN: Shall section 64 carry?

64. (1) An annual report, called the Public Accounts, shall be laid before the House of Commons by the Minister on or before the thirty-first day of December, or if Parliament is then not in session, within fifteen days after the commencement of the next ensuing session thereof.

(2) The Public Accounts shall be in such form as the Minister may direct, and shall include:

- (a) a report on the financial transactions of the fiscal year.
- (b) a statement, certified by the Auditor General, of the expenditures and revenues of Canada for the fiscal year;
- (c) a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the Minister are required to show the financial position of Canada as at the termination of the fiscal year;
- (d) the contingent liabilities of Canada; and

- (e) such other accounts and information as are necessary to show, with respect to the fiscal year, the financial transactions and financial position of Canada, or are required by any Act to be shown in the Public Accounts.

Carried.

Shall we go back now to where we left off yesterday? Crown corporations, clause 80 on page 24. Are there any questions on item 80? That is where we left off yesterday.

Mr. MACDONNELL: I want to go back to the question asked by Mr. Fleming, to which Mr. Balls referred, and that is as to their methods of accounting; how many Crown corporations use the income-expenditure method which Dr. Clark said in general terms was required of certain Crown corporations. Will it not be possible for us—I appreciate it is nearly 1 o'clock, Mr. Chairman, should we continue?

The CHAIRMAN: Carry on.

Mr. MACDONNELL: Would it not be possible for us to find out exactly the details with respect to each one; could we have that?

Mr. CLARK: Yes, we will look that up for you.

Mr. MACDONNELL: I just want to ask a question—I do not know whether this is the right section or not—as to the powers of crown corporations. Some of them are spelled out in various ways while others, I understand quite a number—I would like to know how many—are individual corporations incorporated under the Ontario Companies Act or the Dominion Companies Act and therefore have almost infinitely wide powers, under section 14 of that Act, and some of the other sections in it too; but section 14 gives them very wide powers. I would like to have that information. Perhaps it is readily available. I would like to know if they are incorporated with the powers under the Companies Act as against the powers spelled out in the Special Act, why that is, what the reason is?

Mr. BALLS: Well, first, Mr. Macdonnell, the companies that are incorporated under part I of the Companies Act which are listed in schedules "C" and "D" are: Canadian Arensals Limited, Canadian Patents and Development Limited, Canadian Sugar Stabilization Corporation Limited, Commodity Prices, Stabilization Corporation Limited, Defence Construction (1951) Limited, Park Steamship Company Limited, Eldorado Mining and Refining (1944) Limited, Northern Transportation Company (1947) Limited, and, Polymer Corporation Limited. The others are all incorporated under the provisions of specific statutes; the Canadian Commercial Corporation under the Canadian Commercial Corporation Act; the Crown Assets Disposal Corporation under the Surplus Crown Assets Act and so on.

Mr. MACDONNELL: Is it a fact that those incorporated under the Companies Act were incorporated in that form so as to qualify them to do business just like any other corporation, except that they happen to be owned by the government? Would that be the distinction?

Mr. BALLS: I do not think, sir, that would necessarily be the distinction. As I recall it there were certain provisions in the Department of Munitions and Supply Act which authorized the minister to cause the incorporation of certain companies under part I of the Companies Act and it was to take advantage of the incorporating powers of the Companies Act, and all these companies which are referred to, with the exception of three, were incorporated in that way. There is a similar provision in the Research Council Act authorizing the incorporation of companies under part I of the Companies Act; for instance, Canadian Patents and Development Limited, was incorporated pursuant to that

Act. On the other hand, the Commodity Prices Stabilization Corporation and the Canadian Sugar Stabilization Corporation were incorporated under the Companies Act pursuant to the powers granted to the Minister of Finance under the War Measures Act.

Mr. MACDONNELL: Do you think that these companies were incorporated under the Dominion Companies Act just because it was the most convenient way of doing it and any other way would have been more cumbersome; or, do you think that there was a definite feeling that these very wide powers were necessary—was it a case of giving a man a job and not keeping his hands tied when doing it—do you think that was the reason for the decision where these wide powers were needed?

Mr. BALLS: I would not, of course, sir, know what the incorporators had in mind, what the reasons may have been for the incorporation in that form, but I would assume that it was a convenient device to cause the incorporation of these companies because they were urgently needed at the time they were created. I might add one point in connection with these companies and that is that they were all, I believe, incorporated after an Order in Council was passed authorizing the minister to enter into an agreement with the company concerned to carry on certain specified functions and that agreement clearly set forth the powers and responsibilities and the extent of the operations involved.

Mr. MACDONNELL: Am I to understand then that in such cases the main purpose was in fact to give these companies those wide powers? Is there any objection to seeing one of those agreements?

Mr. CLARK: Mr. Henry will speak to that, Mr. Chairman.

Mr. MACDONNELL: You know what Mr. Balls said about these powers or understandings or instructions embodied in departmental memoranda to these companies. I would like to know whether those things in effect superseded or became in effect their powers in lieu of the powers herein?

Mr. HENRY: No, sir. The powers in The Companies Act would be superseded only in so far as the charter of the company altered them. That, I take it, is ordinarily provided for in the statute, such as the Munitions and Supply Act which authorizes the company to be incorporated at the instance of the minister. At any rate, most of the ancillary powers of the corporation would be found in The Companies Act and the general powers would be found in the Letters Patent which incorporated the company.

Mr. MACDONNELL: Did I understand Mr. Balls correctly as saying that there was a third document which also contained instructions and understandings?

Mr. HENRY: That is quite correct, because the Munitions and Supply Act provided that the minister could delegate certain powers to the company. That was the reason the company was to be formed; and the minister would accordingly enter into an agreement with the company after it had been formed, setting out the scope of its powers.

Mr. MACDONNELL: Yes, the company would be the agent.

Mr. HENRY: The company would be an agent, yes. But the minister did not delegate all his responsibilities; only the functions which the minister wanted the company to perform as his agent. So, of course, they must be specified.

Mr. MACDONNELL: In order to set up an understanding between the minister and his agent?

Mr. HENRY: Yes, sir, and the incorporation of the company was done just to bring a legal person into being so that the minister could make an arrangement with it.

Mr. SINCLAIR: Mr. Chairman, it is now 1.00 o'clock.

The CHAIRMAN: Should we not keep on for a full hour?

Mr. SINCLAIR: Why not adjourn now and meet again at 2.45?

The CHAIRMAN: Very well.

Mr. SINCLAIR: I have been talking to the minister and he suggested that as far as actual technical matters of administration are concerned, Dr. Clark, Mr. Bryce, Mr. Balls, and Mr. Henry can probably give you immediate answers. But on the other hand, as far as questions of policy and so forth are concerned, I have here items 38, 71, and 76 as policy items, and the minister said that he would be glad to come to us as soon as we are ready for him.

Mr. MACDONNELL: I would like to see a list of the directors of these crown companies, particularly the ones which are under the Dominion Companies Act.

The CHAIRMAN: It can be produced, but maybe not this afternoon.

Mr. MACDONNELL: I know. I was just asking for the document.

The CHAIRMAN: The committee stands adjourned until 2.45 this afternoon.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen, when we adjourned at 1:00 o'clock today we were still on clause 80, page 24. Are there any further questions on clause 80?

Mr. FLEMING: I have several questions, Mr. Chairman.

The CHAIRMAN: May I ask before we start, so that no one will think it applies to him, that members limit the questioning to items which are under discussion so that we can carry on our work and complete our study of the bill. There are many questions which may come to the minds of many members on any of these items, but those questions may not be relevant to the item itself. So may we limit discussion to the item in the bill which is under consideration, when it is called.

Mr. CLARK: Mr. Balls has had to leave the room to take a telephone call but he will be back in a minute or two. Might I ask if we could go back to section 76, subsection (2) of which had been left in abeyance?

The CHAIRMAN: Yes.

76. (1) In this Part

- (a) "agency corporation" means a Crown corporation named in Schedule C;
- (b) "auditor" means, in relation to a corporation, the person authorized by Parliament to audit the accounts and financial transactions of the corporation;
- (c) "Crown corporation" means a corporation that is ultimately accountable, through a Minister, to Parliament for the conduct of its affairs, and includes the corporations named in Schedule B, Schedule C and Schedule D;
- (d) "departmental corporation" means a Crown corporation named in Schedule B; and
- (e) "proprietary corporation" means a Crown corporation named in Schedule D.

(2) The Governor in Council may by order delete the name of any corporation from Schedule B, Schedule C or Schedule D.

(3) The Governor in Council may by order

- (a) add to Schedule B any Crown corporation that is a servant or agent of His Majesty in right of Canada and is responsible for administrative, supervisory or regulatory services of a governmental nature;

- (b) add to Schedule C any Crown corporation that is an agent of His Majesty in right of Canada and is responsible for the management of trading or service operations on a quasi-commercial basis, or for the management of procurement, construction or disposal activities on behalf of His Majesty in right of Canada; and
- (c) add to Schedule D any Crown corporation that
 - (i) is responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public, and
 - (ii) is ordinarily required to conduct its operations without appropriations.

Mr. CLARK: To meet the point raised by the committee yesterday, we suggest adding at the end of that subsection, these words:

and shall thereupon add the name of that corporation to the appropriate schedule in accord with subsection (3).

The subsection would then read:

The Governor in Council may by order delete the name of any corporation from schedule B, C or D and shall thereupon add the name of that corporation to the appropriate schedule in accordance with subsection 3.

I think that wording would meet the point raised yesterday.

Mr. SINCLAIR: That was the intent of the section anyway.

Mr. FLEMING: I would be satisfied with that. I think it meets the point I raised yesterday.

The CHAIRMAN: Shall we say that section 76 as amended shall carry?

Carried.

Now, section 80.

80. (1) Each agency corporation shall annually submit to the appropriate Minister an operating budget for the next following financial year of the corporation for the approval of the appropriate Minister and the Minister of Finance.

(2) For each corporation the appropriate Minister shall annually lay before Parliament the capital budget for its financial year approved by the Governor in Council on the recommendation of the appropriate Minister and the Minister of Finance.

(3) The Treasury Board, on the joint recommendation of the Minister of Finance and the appropriate Minister, may by regulation prescribe the form in which budgets required by this section shall be prepared.

Mr. FLEMING: Mr. Balls, in connection with section 80 in regard to the submission of the operating budget for the approval of the Minister of Finance, what is the present practice, and to what extent may it or may it not involve a departure from it?

Mr. BALLS: It is a departure from the present practice. With respect to most of the corporations at the present time, the Minister of Finance does not normally see the operating budget of the corporation.

The CHAIRMAN: I must ask you to begin over again, Mr. Balls. This brings us back to what I have said so often before, that if we want to have good reporting of what is going on we will have to have a louder voice and also slower speech on the part of the witnesses and members.

Mr. SINCLAIR: Yes, and less noise.

The CHAIRMAN: Now, may we start all over again?

Mr. BALLS: There is a change in respect to subsection (1) of section 80 in that provision is made for the approval of the operating budget by the appropriate minister, or the Minister of Finance. In the past it has not been the normal practice for the Minister of Finance to see these budgets. And while I cannot speak as to what the practice has been with respect to the appropriate minister, I would think that in some cases it has been a matter for the corporate officers to determine the budget possibly without the specific approval of the minister.

There are one or two cases in which budgets are required to be submitted. The Federal District Commission has a requirement that their budget shall be submitted to the President of the Privy Council; and that no expenditure shall be made by the Commission under the Federal District Commission Act, until the expenditure has been approved by Council.

There is a similar provision in the National Battlefields at Quebec Act under which the National Battlefields Commission operates. But for the rest, I do not believe there has been any statutory requirement for the submission of operating budgets of agency corporations, either to the appropriate minister, or the Minister of Finance. With regard to proprietary corporations there are at the present time requirements in one or two cases whereby the budgets of the proprietary corporations shall be submitted to parliament. There is such a provision, for example, with respect to the Canadian National Railways.

Under the Canadian National-Canadian Pacific Act, section 12 requires:

The annual budget of the National Railways shall be under the control of the Board of Directors. Estimates of the amounts required for income deficits, for interest on obligations outstanding in the hands of the public, for capital expenditures and for refunding or retirement of maturing securities shall be submitted by the Board of Directors to the Minister of Transport for the consideration and approval or disapproval in whole or in part of the Governor in Council and thereafter presented to parliament. Income deficits shall not be funded. Amounts provided by parliament to meet capital expenditures shall not be diverted to cover deficits in operation unless with the express authority of parliament.

Mr. FLEMING: Has any thought been given yet to the form in which the operating deficits will be required to be submitted by agency corporations?

Mr. BALLS: There is one further corporation in the proprietary group which at the present time has a statutory direction to submit both an annual capital budget and an annual operating budget to the minister for his consideration and approval; and it is furthermore provided that the budget as approved shall be submitted to parliament.

The name of the corporation is Canadian Overseas Telecommunications Corporation. Those are the only two instances, to the best of my knowledge, in which there are budgetary directions with respect to proprietary corporations.

Mr. SINCLAIR: Do you not mean operating budgets? You said "operating deficits"?

Mr. FLEMING: Oh, I am sorry, I meant "operating budgets", which will be required to be submitted by agency corporations.

Mr. BALLS: No. And if you will notice subsection 3 of section 80 it says:

The Treasury Board, on the joint recommendation of the Minister of Finance and the appropriate minister, may by regulation prescribe the form in which budgets required by this section shall be prepared.

I presume that consideration would be given to this when the Treasury Board deals with these matters.

Mr. FLEMING: I wondered whether the department has had in mind uniform operating budgets, uniform in the matter of form and content, something of a standardized nature?

Mr. BALLS: I can see some difficulties in requiring complete uniformity and standardization with respect to the submission of budgets. The extent of detail and the nature of the information which would be required for proper consideration of the budget might vary with the nature of the operations of the organization.

The CHAIRMAN: Shall section 80 carry?

Mr. FLEMING: What have you to say about reporting to parliament on these operating budgets, after they have been approved by the ministers?

The CHAIRMAN: I think that was one of the matters we were supposed to ask the minister about as being a question of policy. Shall section 80 carry?

Mr. FLEMING: I think there is nothing more than policy involved here.

Mr. BALLS: I wonder if you would repeat your question.

Mr. FLEMING: I asked if there was any difficulty in the way of reporting and submitting those operating budgets to parliament after they have been approved by the ministers?

Mr. BALLS: I should think—

Mr. FLEMING: For the information of parliament.

Mr. BALLS: I should think first of all that the matter is essentially one of policy. But it well may be that in some cases the amount of information that can be provided and anticipated with respect to the operations as distinct from the capital requirements of these corporations may make it somewhat difficult to give information with respect to the estimates?

Mr. MACDONNELL: Do you think it would be cumbersome and unnecessary to treat the other corporations' budgets in the way that the Canadian National budget is treated?

Mr. BALLS: Yes, I would be inclined to think so, sir, in some cases.

Mr. BROWNE: Where there is a big difference in the revenues and expenditures so that there is a large deficit, should not the minister come before parliament and explain it?

Mr. BALLS: In that regard, I would say that in any event where there is a deficit which has to be provided for by an appropriation by parliament, then, of course, the estimates would be before the House and there would be an opportunity to discuss the requirements of the corporation.

Mr. MACDONNELL: Why should we only know when the news is bad?

The CHAIRMAN: Because that is the only time you need to vote more money.

Mr. BALLS: There will, of course, be an opportunity to discuss the affairs of the corporation on the presentation of the annual report. There is a provision that the annual reports of these corporations shall be laid before the House.

Mr. BROWNE: Yes, but when these annual reports are laid before the House, there is no discussion on them. They are simply laid there as a matter of course and routine.

Mr. SINCLAIR: That is not a matter for the Department of Finance, I think, to deal with, but rather one for parliament. The report is made to parliament and what parliament chooses to do with it certainly does not concern the

Department of Finance. It is the House of Commons which decides, not the minister or his deputies.

Mr. WRIGHT: Mr. Chairman, I have a motion to move on section 85 with regard to that.

The CHAIRMAN: But we are not yet on section 85, Mr. Wright.

Mr. WRIGHT: I know, but when we are dealing with it.

The CHAIRMAN: When we get to section 85, I will accept your motion, Mr. Wright.

Mr. WRIGHT: My motion is to the effect that these annual statements be placed before a select committee of the House.

The CHAIRMAN: All right. As I say, when we get to section 85, I will give you the floor right away. Are there any questions now on section 80?

Mr. MACDONNELL: Mr. Chairman, is this the proper place to pursue the question raised this morning as to the powers of companies under the Dominion Act? I want to ask more about that.

The CHAIRMAN: Shall we go on with the text of each article? You are a good enough lawyer to know that this question is very broad and that it may not fall within this particular chapter on crown corporations. But if you can find no item that covers what you intend to ask, I will give you the floor after this part is carried and you can raise any other question that is not covered under this. I will give you the floor then, but I would like to proceed now article by article and keep to the item under discussion.

Mr. SINCLAIR: I raise a point on this. All this discussion is for the financial administration. Each crown company and each of the proprietary companies have their own statutes or acts of incorporation, and their powers are spelled out in those documents. This is not the appropriate place or committee to discuss them. Actually, the powers given to crown companies are set out in their statute or in their act of incorporation.

Mr. MACDONNELL: I asked before lunch to be informed as to which of the crown corporations come under the Dominion Companies Act, and that information, I presume, will be forthcoming. Then I wish to raise certain questions as to the propriety of their having all these powers. Many of them are absolutely absurd for a crown corporation. You may well say "What is the matter with them having all these powers even if they are absurd"—the power to carry on any other business, the power to promote any other company, the power to lend money to any other company. We do not intend to give these powers to crown corporations.

The CHAIRMAN: My intention up to now has been to give as much leeway as possible in order to get the information on the record. I did not want to tie the hands of the committee too closely, but it seems to me that we should now proceed item by item. When a question like that raised by Mr. Macdonnell is asked, I am inclined, as chairman, to allow it to a certain limit, but now we are extending much too far on questions that have nothing to do with the item. I would like to call item 80, and if there are no more questions on that I will put the question.

Mr. BROWNE: Does article 80 now enshrine in its provisions the practice that has been followed up to the present time, or is it something new that is being set up?

Mr. BALLS: This does go beyond the present practice. As I mentioned in regard to one or two of the corporations, there is at the present time provisions with respect to the submission of operating or capital budgets—one or two of

the agency corporation group are now required to submit budgets, and proprietary corporations like the C.N.R. and the Canadian Overseas Telecommunication Corporation, are also required to submit budgets yearly.

Mr. MACDONNELL: There is one point I am still not clear about. This section says each agency corporation shall annually submit . . . Now, the agency corporations are set out in one of the schedules, but they exclude a lot of others. Does that mean only agency corporations, or are the others going to be dealt with elsewhere?

Mr. BALLS: With respect to subsection (1), we are dealing with the operating budgets of agency corporations only. The departmental corporations will be dealt with as departments of government and will be covered normally by the ordinary appropriation requirements of parliament.

Mr. MACDONNELL: But then that excludes schedule D, the proprietary corporations?

Mr. BALLS: With respect to the proprietary corporations, we are requiring in subsection (2) that both agency and proprietary corporations shall submit capital budgets, to be approved by the Governor in Council on the recommendation of the two ministers, that is the appropriate minister and the Minister of Finance, and the capital budgets of both agency and proprietary corporations shall be laid before parliament.

Mr. MACDONNELL: Why is it only a capital budget, say, in the case of Polymer?

Mr. BALLS: The principal reason, I should say, is that in regard to corporations like Polymer, which are normally required to pay their own way that there should be a certain independence, a greater degree of independence with respect to their operations. We have tried to make some distinction between the degrees of control which should be exercised over the three groups of corporations, but a departmental corporation will be dealt with in all respects, subject to any specific terms in its legislation, as a department of government. The agency corporation, we are requiring, shall be subject to some lesser degree of control, and the proprietary corporation to some lesser degree of control again.

Mr. MACDONNELL: Perhaps my illustration of Polymer was not the best one, because I am inclined to think there is force in what you say. Let us take one or two of the others in schedule D, the Canadian Farm Loan Board, Central Mortgage and Housing Corporation. Now, do you make the same argument with regard to them? They are rather different forms of activities, they are not in business the way that Polymer is.

Mr. BALLS: Well, all I can say, sir, on the corporations listed in schedule D is that those are ones which should be granted in their management a greater degree of managerial responsibility than would normally be the case of those corporations listed in schedule C, which are agencies, bodies performing essentially agency operations on behalf of the crown.

Mr. MACDONNELL: May I interrupt you. Would you make that argument, for example, for the Farm Loan Board as against Park Steamship Company? I am not very familiar with the operations of Park, but would you make that same argument?

Mr. BALLS: Yes, I would say so.

Mr. FULTON: I was wondering what the difference is between the C.N.R. and Park Steamship. How is one more the agent of the government than the other?

Mr. BALLS: I think one answer to that is the fact that Park Steamship Company operates under the provisions of the The Government Companies

Operation Act, which expressly declares a company under it to be an agent of His Majesty for all its purposes. There is no such similar provision with respect to the Canadian National (West Indies) Steamships, Limited.

The CHAIRMAN: Shall section 80 carry?

Carried.

Shall section 81 carry?

81. (1) A corporation may, with the approval of the Minister of Finance, maintain in its own name one or more accounts in the Bank of Canada or in such bank in Canada or financial institution outside of Canada as the Minister of Finance may approve.

(2) The Minister of Finance may, with the concurrence of the appropriate Minister, direct a corporation to pay all or any part of the money of the corporation to the Receiver General to be placed to the credit of a special account in the Consolidated Revenue Fund in the name of the corporation, and the Minister of Finance may pay out, for the purposes of the corporation, or repay to the corporation, all or any part of the money in the special account.

(3) Notwithstanding the other provisions of this section, where the appropriate Minister, and the Minister of Finance, with the approval of the Governor in Council, so direct, a corporation shall pay to the Receiver General so much of the money administered by it as the appropriate Minister and the Minister of Finance consider to be in excess of the amount required for the purposes of the corporation, and any money so paid may be applied towards the discharge of any obligation of the corporation to His Majesty, or may be applied as revenues of Canada.

Mr. WRIGHT: Which of these corporations use the Bank of Canada for their accounts as between a chartered bank? I notice that this makes provision that they may carry accounts in either the Bank of Canada or the chartered banks. To what extent do they do that?

Mr. BALLS: The only corporation that uses the Bank of Canada to my knowledge, is Commodity Prices Stabilization Corporation.

Mr. WRIGHT: Why would they use the Bank of Canada?

Mr. BALLS: I could not tell you the reason, sir. It was just simply the arrangement which was made at the time of the incorporation of Commodity Prices Stabilization Corporation some ten years ago.

Mr. WRIGHT: I would like to pursue this a little further. If one corporation uses the Bank of Canada they must use it for some specific reason, that it suits them better or they get a better deal. I would like to know why one corporation would use the Bank of Canada, while others do not. It seems to me if it is good business for one corporation to use the government bank, it should be good business for other corporations doing similar business and carrying similar accounts, to use the Bank of Canada. I would like to know the reasons for the use of the Bank of Canada as against the chartered banks.

Mr. CLARK: I think, Mr. Chairman, the reason for that is historical. This is a corporation that was part of the Finance Department, very closely connected with the Finance Department. The head at that time was the former Deputy Governor of the Bank of Canada. The corporation was also carrying pretty large balances for a time for subsidy purposes, and in connection with its operation of price control, and for those reasons it seemed natural at the time to use the Bank of Canada as its fiscal agent. I would say, Mr. Wright, it would not get a better "deal" from the Bank of Canada than from another bank. The Bank of Canada cannot allow interest on its deposits and, normally,

the Bank of Canada does not like to get into this business to any great extent. It is not its essential business. So, I think the fact that this corporation happens to have the Bank of Canada as its banker while others use a chartered bank is not very significant.

Mr. WRIGHT: There are none of the others who carry accounts, then, in the Bank of Canada?

Mr. CLARK: I cannot think of any others at the moment. I am not quite sure whether the Export Credits Insurance Corporation may have a small account with the Bank of Canada. On the whole I cannot remember any others that I am sure have an account at the Bank of Canada.

Mr. WRIGHT: Is there any logical reason why they should not use the Bank of Canada when they are carrying large deposits?

Mr. CLARK: Mr. McIntyre reminds me that with a company like Polymer, for example, having its plant in Sarnia, it would not be convenient at all for them to operate through the Bank of Canada here at Ottawa.

Mr. WRIGHT: I realize that, but there are some of the others that are not in that position. I can understand a corporation that is doing a large checking business, naturally they would have to use the chartered banks, but companies that are not doing a large checking business and where there are large sums of money involved laying there over a period of time might find it advantageous to use the Bank of Canada.

Mr. CLARK: There would not be many cases of that sort of thing where they are just carrying large balances and not having a considerable amount of checking and bank draft business and that kind of thing.

The CHAIRMAN: Shall section 81 carry?

Carried.

Shall section 82 carry?

82. (1) At the request of the appropriate Minister, and subject to the approval of the Governor in Council, the Minister of Finance may from time to time lend money to a corporation for working capital out of money in the Consolidated Revenue Fund.

(2) The aggregate amount of loans outstanding made to any one corporation under this section shall not at any time exceed five hundred thousand dollars.

(3) A loan under this section is subject to such terms and conditions as the Governor in Council approves and is repayable within a period not exceeding twelve months from the day on which the loan was made.

(4) A report of every loan to a corporation under this section shall be laid by the Minister of Finance before Parliament within fifteen days after it is made or, if Parliament is not then in session, within fifteen days after the commencement of the next ensuing session thereof.

Mr. FLEMING: On section 82, Mr. Chairman. I am wondering about the application of the provision such as we find in this section to corporations like the Canadian Broadcasting Corporation, in the light of provisions in the Canadian Broadcasting Act for the making of capital advances to the corporation by the government under certain conditions set forth in the Act. Should not this section be made subject to the provisions of any other relevant Acts pertaining to any individual corporations appearing in the schedules?

Mr. BALLS: Mr. Chairman, in reply to that I would state, first of all, that section 78 of this part does provide that in the event of any inconsistency between the provisions of sections 79 to 88 of the bill and the provisions of any other Act, the provisions of such other Act shall prevail. However, I might also

point out in regard to section 82 they are subject to two limitations which I mentioned yesterday: (1) No loan can be made for a term exceeding 12 months, and (2) no loan can be made for an amount exceeding \$500,000. This provision is to meet temporary requirements for working capital, and is expressly required to be repayable within 12 months.

Mr. FLEMING: Those two final safeguards to which Mr. Balls has just made reference are, I think, not relevant to my concern in this matter. Questions of parliamentary policy are involved in the making of loans to the Canadian Broadcasting Corporation. That is the reason you have specific provision for it in the Canadian Broadcasting Act. I am a little bit doubtful as to whether section 78 goes far enough to meet the need of the situation. It simply provides that where there is any inconsistency between two Acts then the special Acts rather than the general Act shall prevail. But what we have here is a provision under 82, which, read with a specific provision in the Canadian Broadcasting Act, could very conceivably be construed as not being inconsistent with one another or as being in addition to one another. So, loans might be made under the Canadian Broadcasting Act in addition to loans made under this section. I do not think, surely, that is the policy of this particular bill.

Every time we have had that question of loans to the Canadian Broadcasting Corporation parliament has concerned itself very closely with the purpose for which the loan was to be made. This is not just for cases of inconsistency, and the two Acts could be construed as providing for loans to the Canadian Broadcasting Corporation under the Broadcasting Act and then another loan under this section?

Mr. CLARK: I would ask Mr. Fleming has not the concern of parliament been with loans for capital purposes essentially? This is just for working capital, tied to a very short term situation, and it would have to be repaid within a short period—a period not exceeding twelve months.

Mr. FLEMING: With great respect I do not think that is the answer because there have always been questions of policy, very broad policy too, in these loans to the C.B.C. For instance, loans for the purpose of developing television, or loans for a particular type of physical development.

Mr. CLARK: I was thinking that both of those would involve capital expenditure.

Mr. FLEMING: Yes, they do, but they have included working capital. That is the historical fact in the administration of the financial affairs of C.B.C., and parliament has retained quite close control over loans that have been made to the C.B.C.

Mr. FRASER: That clause there—

The CHAIRMAN: Just a moment, I think there will be an answer.

Mr. CLARK: There was a similar provision to this in the Government Companies Operation Act.

First, Mr. Chairman, I would like to be sure that the correct legal interpretation is that the loan of \$500,000 would be in addition to any loan possible under any other Act.

The CHAIRMAN: Mr. Henry could give the answer so it could be put on the record.

Mr. HENRY: The additional loan could be made under Section 82 if the additional loan did not contravene some limit that was in the special Act. However, Section 16 of the Canadian Broadcasting Act provides as follows: "The Governor in Council, on the recommendation of the minister, may authorize the Minister of Finance to place to the credit of the Corporation working capital advances from any unappropriated moneys in the Consolidated Revenue

Fund, but the aggregate amount of such advances outstanding at any one time shall not exceed \$100,000..."

I would say that that provision would preclude the Governor in Council from making any advance under Section 82, to the extent it would exceed the \$100,000 limit in Section 16 of the Canadian Broadcasting Act.

The CHAIRMAN: We shall adjourn temporarily to go down to the House for a vote.

The committee adjourned for a division in the House.

Mr. CHAIRMAN: Gentlemen, we were considering item 82 when we were called down to the Chamber. Shall it carry?

Mr. FLEMING: I was wondering if there is any further safeguard which Mr. Henry might suggest in addition to subsection (1) of section 82—having regard to the point I was raising?

The CHAIRMAN: Since Mr. Henry is not here shall we leave the section stand?

Agreed.

83. The Governor in Council may make regulations with respect to the conditions upon which an agency corporation may undertake contractual commitments.

Carried.

84. Subject to any order of the Governor in Council made on the joint recommendation of the Minister of Finance and the appropriate Minister, a corporation may make provision for reserves for depreciation of assets, for uncollectable accounts and for other purposes.

85. (1) A corporation shall keep proper books of account and proper records in relation thereto.

(2) Subject to such directions as to form as the Minister of Finance and the appropriate Minister may jointly give, a corporation shall prepare in respect of each financial year statements of accounts, which shall include

- (a) a balance sheet, a statement of income and expenditure and a statement of surplus, containing such information as, in the case of a company incorporated under *The Companies Act, 1934*, is required to be laid before the company by the directors at an annual meeting, and
- (b) such other information in respect of the financial affairs of the corporation as the appropriate Minister or the Minister of Finance may require.

(3) A corporation shall, as soon as possible, but within three months after the termination of each financial year submit an annual report to the appropriate Minister in such form as he may prescribe, which shall include the statement of accounts specified in subsection two, and the appropriate Minister shall lay the report before Parliament within fifteen days after he receives it or, if Parliament is not then in session, within fifteen days after the commencement of the next ensuing session thereof.

(4) A corporation shall make to the appropriate Minister such reports of its financial affairs as he requires.

The CHAIRMAN: Mr. Wright has a question here.

Mr. WRIGHT: My question is on 85 (3) which states:

A corporation shall, as soon as possible, but within three months after the termination of each financial year submit an annual report to the ... minister.

And then it states: The minister must within fifteen days after he receives this, or if parliament is not in session, within fifteen days after the commencement of the next ensuing session thereof, lay the report before the House.

Some of these corporations today are handling very large sums of money and their annual statements are laid before the House, but it is very difficult to get all of the information which I think some of use would like from the minister on his estimates. That is the only place where we would have an opportunity of questioning him. He might have the members of the corporation before him or he might not when he is being questioned, and it seems to me a much more direct method of keeping check on corporations and a much better method of getting information would be to have these corporations appear before some select committee, some select standing committee or some select special committee of the House. The time has come when the government is in business in a big way and parliament has a responsibility to the people of Canada with regard to these Crown corporations.

I think our responsibility can best be carried out by having these corporations appear annually, as is the case with the Canadian National Railways, Trans-Canada Air Lines, and the Canadian Broadcasting Corporation, before some select standing committee or special committee of the House wherein the officers can be questioned.

Take, for instance, Eldorado Mining and Refining Company. It not only operates a mine but it has a department which does exploration work. They have many aeroplanes in parts of Northwest Canada and in some of the provinces. They have a refinery and several subsidiary companies. It is very difficult in the House, as the minister knows, to get information which might be useful to members of parliament.

I would like to move that in Section 85 there be a further section which would be better, I think, to come in as number 4, renumbering subclause 4 as (5):

That at each session the annual reports laid before parliament for that year of companies in schedules C and D shall be submitted to a standing select committee or a special committee of the House for consideration.

I think the companies in those two schedules are corporations whose business we should, as members of parliament, have fairly close knowledge of, and I do not know of any way we can get that close knowledge except by having them appear before a select committee of the House.

The CHAIRMAN: Before I open the discussion I will read the motion again.

Mr. WRIGHT: Perhaps you had better let me read it, my writing is not too good.

The CHAIRMAN: It is all right.

It is moved by Mr. Wright that a further paragraph which would carry the number 4 be included after paragraph 3 of Section 85 reading:

At each session the annual reports laid before parliament for that year of Crown corporations shall be submitted to a standing or select committee of the House for their consideration.

The discussion is open and, after the discussion I will give a ruling on the motion. My ruling will not be open for discussion so that any member who is about to speak now may assume that the ruling might be that the motion is out

of order, although I approve of the principle contained in it. I adopt this course to give you a fair chance of entering into the discussion from any angle you wish.

Let us say we start around the table this way, to the left.

(Division Bell).

Mr. SINCLAIR: I think we might dispose of this before we go down to vote. I think most of us believe that the effect is desirable but the fact of the matter is that the House of Commons is the master of its own destiny. When a report is submitted to it the House of Commons decides what it is going to do with that report. If it is referred to committee it is referred there by a motion of the House and not by legislation. I think this is very desirable and we would like to see it but I think the place for the provision is not in this bill but in the House of Commons when a report is presented a member may move that it be referred to whatever standing or select committee he wishes.

Mr. FRASER: Could this committee make a recommendation?

The CHAIRMAN: I think it is only fair to give all members an opportunity to express their points of view. Therefore, I think I would rather adjourn than hurry this.

Mr. WRIGHT: Has the committee the right to make a recommendation?

The CHAIRMAN: We will adjourn for the vote, I think that is better than rushing this.

The committee adjourned for a division in the House.

(Upon resuming.)

The CHAIRMAN: We are now dealing with Mr. Wright's motion which I read before we went down to the House. I have asked members who have observations to make them now, because after I give my ruling on the motion they will not have an opportunity of doing so.

Mr. SINCLAIR: I have one more point to make, Mr. Chairman, to add to what I said just before we adjourned. All of the corporations listed in schedule "C" and "D" have balance sheets and operating statements included in the public accounts now, with the exception of the Canadian National Railways, Trans-Canada Air Lines and the Canada-West Indies Steamship Service. As you know, the reports and budgets of those companies are referred direct to the sessional committee on the railways and shipping owned, operated and controlled by the government. The two others which are not included are the Canadian Farm Loan Board and the Central Mortgage and Housing Corporation. It is the intention of the Department of Finance in future to place in a separate volume in the public accounts a section dealing entirely with the crown corporations. We could, if it were deemed useful, include statements of these five companies as well, but it would be a duplication in the case of the Canadian National Railways group; and then, irrespective of whether the House should send individual crown company statements to committees there is always the public accounts committee. We would have them there, and this committee would probably do its best to deal with them if it were so decided by the committee.

Mr. WRIGHT: Well, I do not think the public accounts committee would necessarily be the best committee to deal with certain of these reports; for instance, the Wheat Board might be included but I think that report should go to the agricultural committee.

Mr. SINCLAIR: And the Canadian Farm Loan Board.

Mr. WRIGHT: Yes, the Canadian Farm Loan Board. There are other select standing committees of the House. Then there is the Canadian Overseas Telecommunication Corporation, which might have a connection with our railway committee and go to that committee. I do think that they all should go to some select committee. There are also The National Harbour Boards and the Park Steamship Lines. I think this committee would be overloaded with work if all the annual statements of these companies were referred to it or had to be dealt with by it. There is another point there also. If my memory serves me right I think there have been years when this committee has not considered the public accounts.

Mr. SINCLAIR: That is probably true, but it has sat for the last three or four years.

Mr. WRIGHT: Yes, it has sat the last three or four years, but it has not always sat; and I do think that under our present set-up of government with the number of crown corporations that we have in operation that we should see that they go to some committee of the House for consideration. If my motion is out of order—

The CHAIRMAN: I have not said so yet.

Mr. WRIGHT: No, but it has been indicated that it may be out of order. I would think that a recommendation from this committee to the House that this procedure be adopted in the future might be in order.

The CHAIRMAN: We have already made a recommendation to that effect, we made one last year or the preceding year. And now, it will be open to you to move a similar recommendation this time, at a later stage, if you want to.

Mr. WRIGHT: I feel strongly in this matter because it is a matter of confidence in the government and if confidence is to be maintained in our present set-up, using crown corporation to do business, I feel that the country would feel much better if they knew that these annual statements were to be considered by committees of the House.

Mr. JUTRAS: I do not think the motion does what Mr. Wright has in mind. He has in mind particularly the annual reports of these crown corporations going to special select committees. There is already provision with respect to many of them being sent before this public accounts committee. Then there is a question of principle involved, that it is a matter for parliament to decide, not this committee. In any case all these matters are referred to committees at the present time.

Mr. MACDONNELL: It seems to me that what Mr. Wright has said as to the desirability of dealing with these accounts is manifest good sense. And now, as to the point of procedure raised by Mr. Sinclair. I wonder if there is some common sense way we can get around this. Is a recommendation the only thing that we can do? I think it would be a real help to the House of Commons if there were something available, some common sense plan worked out whereby these accounts would go to the committees most competent to handle them. And now, Mr. Chairman, you are very good on these things, could you not devise a way that that could be done; because I think Mr. Wright's suggestion is chock-full of common sense?

The CHAIRMAN: Are there any further comments?

Mr. FRASER: As I said before, I agree with Mr. Wright; but I think that instead of just saying those in schedules "C" and "D" you would say "and any other companies".

The CHAIRMAN: At the moment it says all crown corporations. There is an amendment.

Mr. FRASER: He mentioned schedules "C" and "D".

Mr. WRIGHT: Yes.

The CHAIRMAN: They were not mentioned before.

Mr. FRASER: He mentioned "C" and "D", and I think there should be included in that any other companies that might be formed that would be in that class; and as was also mentioned I think that if we cannot have a motion to have them referred to this committee, if that is out of order, then I think a recommendation should again go to parliament that these be put before the proper committees of the House for investigation.

The CHAIRMAN: Any further comment? I, personally, am in sympathy with what Mr. Wright has said because last year, if you remember, when I was drawing up the first draft of our report I included such a recommendation, and also the year before, and the recommendation was approved by the committee to the effect that reports of crown corporations be referred to a committee of the House, without being specific. Now, no action has been taken so far. Now, at a later stage, after we have completed our consideration of this bill, if Mr. Wright wants to, he may move a motion that we would incorporate in a separate report to the House a recommendation to that effect, but at this moment I think the motion is out of order because we would be legislating in a field in which we are not competent. This amendment would incorporate into an Act of parliament something that is for the House to decide itself, by way of an amendment to the standing orders of the House. It would require special action by the House. A committee which is a creature of the House cannot instruct the House to do this or that, that is for the House itself to decide after a motion has been made in the House. It can decide whether it should alter its procedure and decide to send reports of this kind to a committee.

There is just one thing further I want to say before I give my ruling, and it is this: Even at the moment not all matters are referred to committees. However, the public accounts committee has the right to go into the accounts of all the departments, and so have we the right to go into the accounts of all these different corporations that have balance sheets reported in the public accounts. We have that right at the moment. Of course, I understand what Mr. Wright wants, and that is what we intended two years ago. By his motion he would have these reports referred to special committees. I think that is not within the competence of this committee and so I rule his amendment to the bill out of order.

Mr. WRIGHT: Well, if I might say just one word more, supposing the government of the day had a clause in this bill which stated that the companies in schedules "C" and "D" shall be referred to a select committee of the House, that would be perfectly within the competence of the government, to place that in the bill?

The CHAIRMAN: It would not, because the House of Commons would be the one to decide its own procedure—

Mr. WRIGHT: It would decide.

The CHAIRMAN: —in an amendment to standing orders but not in any other way. In the first place, the government would not have done it because their advisers would have told them it was not legal; and even if somebody had made a mistake it would have been taken out because attention would have been drawn to the fact that they could not decide what the procedure of the House would be. It is the House itself which decides its rules, and any such prescription, if you want to have it in law, should be incorporated into standing orders and not in a general bill like this one which deals with administration. However, at any time, if you press it, I have no objection, if the committee consents, to entertaining a motion, after we are through with this bill which we have before us, that we as a committee make a recommendation that matters of this kind be referred to committees of the House. I do not think we could

do it in the form of an amendment to this special measure, but I would not object to putting the question to the committee if it were put in the form of a motion after we are through with this bill.

Mr. WRIGHT: While Mr. Clark is here, I would just like to ask him if he would see any objection to that—to the annual statements of these corporations being referred to a committee?

Mr. CLARK: It is probably not competent for me to say so, but I think that from our point of view we would be very happy about that. I believe we have the same objective as this committee. The Department of Finance and the Minister of Finance want to see that there is a maximum of control over expenditures and as many safeguards as possible on this kind of thing. We would therefore very much like to see this committee discuss the accounts and statements, for instance, of the corporations which are already reported in the public accounts.

Mr. WRIGHT: Thank you.

Mr. FRASER: Mr. Chairman, in regard to that, at the present time there are Trans-Canada Air Lines, Canadian National Railways, and the steamship lines. We have their annual reports and they are up to date when they are presented in the House, but when we get the public accounts, of course, they are over a year old.

Mr. SINCLAIR: No.

Mr. FRASER: Yes, they are over a year old.

Mr. SINCLAIR: When the report of the Canadian National Railways is tabled in the House the minister then moves that it be referred to the special committee. I think that in this recommendation moved by Mr. Wright we should incorporate this other suggestion that they all be listed in a special section of the public accounts, that is, in one package, so that we may have all the reports. I would like to suggest a small amendment to section 85 because the officers of the department feel that in section 85, as far as ordinary company practice is concerned, it is better to say "statement of income and expenses". Whereas the government uses the word "expenditure". The company usually uses the word "expense".

Mr. CLARK: I think that "expense" is a more apt and appropriate word to employ in accrual accounting, and as you will recall it is intended that crown corporations should generally use accrual accounting. I may say that while private accountants in their audits of ordinary private companies are not fully consistent, the general tendency for them is to concentrate more and more on the use of "income and expense" in their audit reports.

Mr. SINCLAIR: I so move, Mr. Chairman.

Mr. CLARK: And in section 87 we will have to make the same change.

Mr. SINCLAIR: I so move.

The CHAIRMAN: I am sorry, Mr. Sinclair, would you mind repeating your motion?

Mr. SINCLAIR: I move that in section 85, subsection 2, paragraph (a), the word "expenditure" be deleted and replaced by the word "expense".

The CHAIRMAN: Which line?

Mr. SINCLAIR: In section 85, subsection 2, paragraph (a), the first line.

The CHAIRMAN: That is right.

Mr. SINCLAIR: So that it will read:

(a) a balance sheet, a statement of income and expense . . .

The CHAIRMAN: Will you kindly give us the wording exactly as it should be?

Mr. SINCLAIR: In line 32, the word "expenditure" should be replaced by the word "expense".

The CHAIRMAN: Shall the clause carry as amended?

Carried.

Clause 86.

86. The auditor is entitled to have access at all convenient times to all records, documents, books, accounts and vouchers of a corporation, and is entitled to require from the directors and officers of the corporation such information and explanations as he deems necessary.

Mr. MACDONNELL: "The auditor" there means, I take it, the auditor of the relevant crown corporation. That raises this question: Is there any inherent right on the part of the Auditor General? What are his rights with respect to the inspection of a crown corporation if he desires to do it? Should we not, as members of parliament, feel that our representative, and he is about the only one we have, should have the full right? And also, the question arises of duties; we do not want to load up Mr. Sellar with impossible duties, but I would like to feel that the Auditor General has the full right to examine into the affairs of any crown corporation.

Mr. SINCLAIR: I moved that amendment to a private bill a few years ago and at that time, as I recollect it, not one Conservative voted for it.

Mr. MACDONNELL: We are always ready to learn from you, Mr. Sinclair.

Mr. SINCLAIR: And in the following year the C.C.F. moved it, and again not one Conservative voted for it, so that convinced me to that extent, and I agree with section 77.

Mr. WRIGHT: I was really afraid that you were slipping. I know it now.

Mr. MACDONNELL: In view of that, I think we should have an expression of views on it from the Auditor General.

The CHAIRMAN: Mr. Sellar?

Mr. SELLAR: Mr. Chairman, I am not exactly clear what Mr. Macdonnell has in mind. Is it his idea that I should be the auditor of everything?

Mr. MACDONNELL: Oh, no.

Mr. SELLAR: Or that I should have access?

Mr. MACDONNELL: Yes.

Mr. SELLAR: Frankly, I am not interested in any company that I am not the auditor of. When you engage a firm or firms of chartered accountants to make an audit, they should be responsible for their audit. They should not be allowed to pass the buck to me to discover something that they might not do. I do not believe in the principle of divided responsibility.

If the desire is that I simply have the right, so that I could be sent in there, all right. But the section which has to do with the auditing, section 71, reads as follows:

The Auditor General shall, whenever the Governor in Council, the Treasury Board or the Minister directs, inquire into and report on any matter relating to the financial affairs of Canada or to public property and on any undertaking or service that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought.

I think that would take in a public corporation. I may be wrong, but I assume that the government could tell me to go in and audit any of these corporations, if that was their desire. Perhaps the lawyers could tell me better about that.

But the problem you have raised, Mr. Macdonnell, has come up in England and they have not formulated a set opinion on it yet. I was interested in Mr. Wright's point because that has been up at Westminster several times in the last few years, yet they have not got a formula for it.

We should bear in mind that as far as I am concerned I carry out whatever the House tells me to do to the best of my ability. If they wish to tell me to look into other things, I will do so, and there will be no hesitation on my part, in trying to perform my duties.

Mr. MACDONNELL: I had not the slightest intention of contravening what you said at the outset. If there was an auditor charged, it would be his job, and we could say to him: "This is your job; you go in." But in section 71 I think your rights only arise if you are requested by the government. That is not the point I had in mind. I wonder if there is some way by which you can be either set in motion by parliament, or have an inherent right?

Let me read section 71.

The Auditor General shall, whenever the Governor in Council, the Treasury Board or the Minister directs, inquire into and report on any matter relating to the financial affairs of Canada or to public property and on any undertaking or service that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought.

Now, do you see any way by which the gap which I suggest exists can be filled? That is, you would have no right unless you were set in motion by the government. That is the point I am raising.

Mr. WRIGHT: Would that not be accomplished, Mr. Macdonnell, if the Auditor General were in fact the auditor of all crown corporations?

Mr. MACDONNELL: It would, but I am not prepared to advocate that.

Mr. WRIGHT: I think that would be the only way in which your suggestion could be effectively put into effect. As a matter of fact, I think the Auditor General should be the auditor of all crown corporations. I realize it would be putting a large load on him, nevertheless, he can build up his staff. That can be done. He is the man who is appointed by parliament to audit the books of the Government of Canada, and the Government of Canada now includes a lot of crown corporations which are operating under the Government of Canada. Personally, I think that parliament should appoint the Auditor General as the auditor for all government agencies. It would create a larger amount of work, but it simply would mean more staff. I do not know why the Auditor General could not just as easily employ more staff as do the chartered accountants, or the other agencies that are presently doing that work of auditing. The Auditor General, as the representative of parliament, would then in effect be doing the very thing you are suggesting.

Mr. MACDONNELL: Perhaps I should say a word about making the Auditor General the auditor of all crown companies. My reason for being against it is twofold: first of all, I think it would mean a tremendous addition to his staff; and secondly, that commercial auditors who are engaged in the audit of commercial accounts all the time, quite apart from telling a company that its books are right, should be able to bring in a wealth of business experience which could be useful. So, for both of those reasons, I would be against it. I wonder, Mr. Chairman, if we are not certain to finish this afternoon, would it be possible to allow section 71 to stand?

The CHAIRMAN: It is held over now. It is open. Section 71 is one of the three clauses which have not been definitely approved yet. We are now on section 86. Section 71 is still in abeyance.

Mr. MACDONNELL: I would like to have a chance to think it over.

The CHAIRMAN: Does section 86 as amended carry?

Carried.

Section 87.

87. (1) The auditor shall report annually to the appropriate Minister the result of his examination of the accounts and financial statements of a corporation, and the report shall state whether in his opinion

(a) proper books of account have been kept by the corporation;

(b) the financial statements of the corporation

(i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,

(ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and

(iii) in the case of the statement of income and expenditure, give a true and fair view of the income and expenditure of the corporation for the financial year; and

(c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation;

and the auditor shall call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

(2) The auditor shall from time to time make to the corporation or to the appropriate Minister such other reports as he may deem necessary or as the appropriate Minister may require.

(3) The annual report of the auditor shall be included in the annual report of the corporation.

(4) Notwithstanding section seventy-eight, this section operates in lieu of section one hundred and twenty of *The Companies Act, 1934*.

Mr. CLARK: Mr. Chairman, in lines 25 and 26 I think the word "expenditure" should be changed to "expense", for the same reasons that were involved in the change in section 85.

Mr. SINCLAIR: I so move.

The CHAIRMAN: It is moved by Mr. Sinclair to delete the word "expenditure" in line 25 and the word "expenditure" in line 26 and insert the word "expense" in both cases. Shall the amendment carry?

Carried.

Shall clause 87 carry as amended?

Carried.

Clause 88.

88. In any case where the auditor is of the opinion that any matter in respect of a corporation should be brought to the attention of the Governor in Council, the Treasury Board or the Minister of Finance, such report shall be made through the appropriate Minister.

Mr. FULTON: In clause 88, Mr. Chairman, shall we make the same insertion of the word "forthwith" after the word "made" as we did in clause 73?

The CHAIRMAN: I do not see any objection to it personally. Is this amendment acceptable to the committee? Mr. Fulton moves that we add the word "forthwith" on the 47th line, or at the beginning of the 48th line.

Carried.

Shall the clause as amended carry?

Carried.

Now we are through with part VIII which deals with Crown corporations.

Mr. MACDONNELL: Mr. Chairman—

The CHAIRMAN: If you do not mind, Mr. Macdonnell, I want to refer to what I said a day or two ago because I want to be consistent. Some of the officials drew my attention to something we did yesterday which might have violated a principle I enunciated, and they are willing to have altered an item that we voted yesterday. Yesterday in clause 31 on page 11 we gave instructions to the House. I mean, we gave instructions to the minister to refer something to the attention of a select committee. I think an amendment would be in order to this paragraph which might read—

Mr. MACDONNELL: What line?

The CHAIRMAN: Line 44 on page 11, instead of “expenses of the Houses of Parliament”, it should read “expenses of the Senate or House of Commons”, and carry on; or “library of parliament”, and carry on, and “shall report forthwith to the minister who shall draw the matter to the attention of the—” and strike out the following words and replace them by “Senate or House of Commons as the case may be”.

Mr. SINCLAIR: The appropriate minister. By this the comptroller is empowered to tell the appropriate minister.

The CHAIRMAN: No, it is the Houses of Parliament.

Mr. SINCLAIR: Earlier they say, in 2 (a) (iii) with respect to the Senate and the House of Commons the respective Speaker, and with respect to the Library of Parliament, the Speakers of the Senate and the House of Commons. So, all we have to do is to draw the matter to the attention of the appropriate minister.

The CHAIRMAN: You mean the Minister of Finance?

Mr. SINCLAIR: No, the Speaker of the House of Commons, or the Speaker of the Senate, or, if it concerns the library, the Speakers of the Senate and the House of Commons. That is provided for in 2 (a) (iii).

The CHAIRMAN: Yes, but the minister in this act is always the Minister of Finance, and the comptroller “. . . shall report forthwith to the minister, who shall draw the matter to the attention of the appropriate select standing committee”, and it shall decide.

You see, Mr. Wright, if there is something that is being done outside of our powers we should go back and correct it.

Mr. WRIGHT: It is peculiar that that was not noticed till I made my motion.

The CHAIRMAN: I admit that.

Mr. MACDONNELL: I prefer to think that you were right yesterday, Mr. Chairman.

The CHAIRMAN: Shall we revert to item 31? It is moved by Mr. Sinclair and seconded by Mr. Wright that clause 31, as amended by Mr. Sinclair, carry.

Mr. FULTON: How does it stand now?

The CHAIRMAN: In paragraph 6—

Whenever the comptroller is of the opinion that a doubt exists as to the legality or otherwise of a proposed charge to an appropriation provided for the expenses of the Houses of Parliament or the Library of Parliament, he shall forthwith report to the Minister who shall draw the matter to the attention of the appropriate minister.

Mr. SINCLAIR: And he shall decide.

The CHAIRMAN: I do not know if we should leave that in. It would be up to the House to refer it to a standing committee.

Mr. WRIGHT: What is the sense of that? It is to be drawn to the attention of the minister, who again brings it to his own attention. It just does not make sense.

The CHAIRMAN: That is right. I would not say "to the attention of the appropriate minister", I would say "to the attention of the Senate or the House of Commons", because the minister drawing the matter to the attention of the appropriate minister would mean that a minister whose offices had done something wrong that the comptroller did not like would have the decision to give.

Mr. FULTON: I think we should leave it the way the officials recommended that it be changed—that it be drawn to the attention of the House of Commons.

Mr. WRIGHT: How can it be brought to the attention of the House of Commons except by the minister?

Mr. SINCLAIR: When the comptroller draws to the attention of the Speaker that there is something wrong, the Speaker will have to bring it before the House.

The CHAIRMAN: We refer it to the House to decide.

Mr. SINCLAIR: When the comptroller makes a direct observation on the House of Commons and refers it to the Speaker, the Speaker has to refer it to the Internal Economy Committee of the House. What does Mr. Sellar think of this, because this is a reference back.

Mr. MACDONNELL: Surely when he has reported to the Minister of Finance he has done everything he can.

Mr. SINCLAIR: For a department of government, yes, but this is one group that does not come under the government. The Speaker of the House of Commons is not responsible to the government, nor is the House of Commons responsible to the government.

The CHAIRMAN: Whenever the comptroller is of the opinion that a doubt exists as to the legality or otherwise of a proposed charge to an appropriation—well, that proposed charge will already have been approved, we can assume by the Speaker, so what is the purpose of referring it back to him? I think it should read: "... he shall report forthwith to the minister who shall draw the matter to the attention of the Senate or the House of Commons, as the case may be, to decide." It is for them to decide, and if they want to send it to a committee it is up to them to decide on that procedure, but it is not up to us to tell them they should send it to a committee.

Mr. FULTON: I so move, Mr. Chairman.

Mr. SINCLAIR: How does the comptroller, who normally reports to the Minister of Finance, report this matter? How does the Minister of Finance draw the attention of the House or the Senate to these things? What would be his routine?

The CHAIRMAN: I am not an expert on constitutional law, but the minister can draw the attention of the House to anything he wants to.

Mr. FULFORD: Perhaps Mr. Sellar could give his opinion on this.

Mr. SELLAR: I think I can tell you the history of this. It goes back a number of years when Mr. King was the Prime Minister and a particular transaction came up. At that time I was Comptroller of the Treasury. I think Mr. King was anxious for a certain thing to be done. It was proposed the Treasury Board should authorize it, but in the interval the Minister of Finance had referred the matter to me and Mr. King phoned me and I took the view that the Treasury Board had no status whatsoever regarding the management

of the House of Commons, that that was a parliamentary matter outside of the executive government and that the Internal Economy Committee was the proper body to decide that. He agreed with me and in due course action was taken by the Internal Economy Committee and ratified later by the House of Commons by resolution. I think in the drafting of this section the problem arose over what is the comparable body in the Senate. I think that the draftsman would have no trouble when he said the Internal Economy Committee is the authority for it, because that is a statutory body.

The CHAIRMAN: Is there a corresponding body in the Senate?

Mr. SELLAR: No. That is the problem.

The CHAIRMAN: Yes, but even the Internal Economy Committee of the House is a creature of the House.

Mr. SELLAR: No, it is set up by statute, it is in the Act.

The CHAIRMAN: It is not a creature of the House? And you say there is nothing comparable in the Senate?

Mr. SELLAR: I think the Governor in Council makes nominations to it, but only persons who are privy councillors are eligible to be members of the Internal Economy Committee.

Mr. SINCLAIR: What do you suggest, Mr. Sellar?

The CHAIRMAN: I think it should read “. . . who shall draw the matter to the attention of the Senate or the House of Commons”, and it is up to them to refer it to the appropriate authority.

Mr. CROLL: I think Mr. Sellar is right. Why go beyond the House of Commons or Senate? Beyond that let the ordinary machinery take its course. Is that your suggestion, Mr. Sellar?

Mr. SELLAR: Yes. If I might interrupt again—the only thing is there might be a delay.

Mr. CROLL: In the House of Commons? Don't say that!

Mr. SINCLAIR: The House of Commons may not be sitting.

The CHAIRMAN: Paragraph 6 of item 31—I will read it again:

Whenever the comptroller is of the opinion that a doubt exists as to the legality or otherwise of a proposed charge to an appropriation provided for the expenses of the Houses of Parliament or the Library of Parliament, he shall report forthwith to the minister—that is, the Minister of Finance

—who shall draw the matter to the attention of the Senate or the House of Commons, as the case may be, to decide.

Draw it to their attention to decide.

Mr. MACDONNELL: Is that practical? What happens when something is referred to the House of Commons?

The CHAIRMAN: What happens when it is referred to a select standing committee?

Mr. CROLL: Mr. Macdonnell gets up and asks “what has the minister done about so-and-so?”

Mr. MACDONNELL: But how does it get before the House?

Mr. CROLL: The minister has to do it.

Mr. FULTON: How does the minister refer it to the House?

Mr. CROLL: When the House is sitting he does it in the ordinary way by reading an ordinary statement and says this is a matter for the House to decide. Ministers have those privileges. It is done every day.

Mr. MACDONNELL: What are they going to do to decide?

Mr. CROLL: He says this is a problem and leaves it up to the Speaker.

Mr. SINCLAIR: The Speaker is the appropriate minister under this Act as far as the House of Commons is concerned.

The CHAIRMAN: Then you would be reporting to the minister whose own department had done something that the comptroller had doubt about.

Mr. SINCLAIR: The Minister of Finance would normally draw the attention of the ordinary minister to the matter. If something was irregular in the Department of Transport, would that not be the procedure? The Minister of Transport would be the one who would have to correct it, otherwise it would be in the report of the Auditor General the following year. In this case the Minister of Finance reports to the appropriate minister, who is the Speaker.

Mr. MACDONNELL: Who approves the appropriations for the expenses of the Houses of Parliament, the Speaker?

Mr. SINCLAIR: No, the parliament itself.

Mr. MACDONNELL: Who approves the charge to an appropriation?

Mr. SINCLAIR: Mr. McIntyre could speak on that.

Mr. MACDONNELL: Here we have a case where the comptroller is of the opinion that doubt exists as to the legality of a charge to an appropriation. Who will have authorized that charge in the first place?

Mr. MCINTYRE: The officers of the department concerned.

Mr. MACDONNELL: But this is the Speaker's department.

Mr. FULTON: The Senate and the House of Commons.

Mr. MCINTYRE: The Clerk of the House. He will approve the proposed expenditure and if there is any doubt as to the legality of the charge this section sets out the steps to be taken to clear it up and arrive at a decision. In the case of other departments, if a similar matter arises it goes to the Treasury Board and the Treasury Board makes the decision.

Mr. MACDONNELL: In the case of another department, is it not, as Mr. Sinclair read, that the appropriate minister would have the irregularity drawn to his attention? Would that not be natural?

Mr. MCINTYRE: He may in the first place, but if the proposed charge is not a proper charge to the appropriation of the department, or if the comptroller has any doubts about it, they have the right under this section to refer it to Treasury Board and get a ruling.

Mr. MACDONNELL: Would it not be brought to the attention of the parties primarily concerned, the Speaker of the House of Commons in this case?

Mr. MCINTYRE: Yes.

Mr. MACDONNELL: Well, would it not be the appropriate language to say the Speaker of the House of Commons? It is the clerk who will have approved if a mistake has been made.

The CHAIRMAN: May I ask Mr. Henry to give us an opinion on this. Mr. Henry, we want your opinion as to the advisability of the wording that has been suggested here, the Senate or the House of Commons, or as the appropriate minister, the Speaker. We ought not to impose something on parliament we have no right to impose.

Mr. HENRY: The wording that I had informally suggested was the one suggested by yourself, Mr. Chairman—

Mr. FLEMING: You are right again, Mr. Chairman!

Mr. HENRY: —because it seemed to me that the House would have its own procedure for dealing with a matter of this kind. Now, it might be that the wishes of the House or the Senate would be that the Minister of Finance would draw the matter to the attention of the appropriate Speaker. I do not know,

to tell you the truth, whether or not that is the proper way to do it, but it seems to me you cannot be wrong in drawing it to the attention of the House or the Senate. To do that, I should have thought that the minister would simply say "here is a matter that has been referred to me by the comptroller under section so-and-so, I move that it be referred to the Internal Economy Commissioners, or other appropriate committee." It seems to me it could be worked out on that basis. I am not sure, because I have not thought about it, whether it can be worked out by referring it to the Speaker because I am not sure what the Speaker does in a case like that.

Mr. SINCLAIR: Suppose the Clerk of the House wanted to get a couple of dictaphones for the stenographers' pool, and the comptroller might doubt that this was a legal charge against the authority, the appropriation for stationery. Is that going to be held off till next spring for the decision of the House?

That is the type of thing you come across, Mr. McIntyre, is it not?

Mr. MCINTYRE: That is what we have in mind.

Mr. SINCLAIR: Let us look at that. Do you mean to say that the House of Commons has to decide whether or not a dictaphone should or should not be bought?

Mr. MAJOR: Are you not referring it to the Speaker and the Speaker may refer it to the standing committee?

The CHAIRMAN: If we want to correct something that we have not the right to do, we are taking a roundabout way of doing it. I thought, if we left it as Mr. Henry himself considered appropriate, we should leave it to the "Senate and the House of Commons".

Mr. MACDONNELL: No, no, I do not think so.

May I ask Mr. Henry this question? If this was another department—Transport, Agriculture, or whatnot, am I right in thinking, as has been suggested, that the proper person to have this directive would be the minister of the respective department, is that correct?

Mr. HENRY: Yes, sir, for the purpose of drawing it to his attention, but he would not decide—

The CHAIRMAN: That way we will not get the decision.

Mr. CROLL: Why not leave the decision with the Speaker?

Mr. MACDONNELL: I was going on to ask if that was the proper procedure, would not the analogy in this case be the Speaker?

Mr. CLARK: No, I do not think the proper analogy is the Speaker. I suppose the Speaker is in the same position as the minister of the appropriate department—the minister whose official has made a request for a cheque which is illegal in some respects, in excess of the appropriation or something of that sort. In such cases the comptroller has to argue with the appropriate department and it gets up to the minister, presumably, before it is actually referred to the Treasury Board. But he cannot get the issue settled with the department—whether it is the deputy minister, another official, or the minister—so in the preceding subsections of this section he has to refer it to the Treasury Board and the Treasury Board makes the final decision between the disputants.

Here, you are trying to deal with a case where there has been a dispute. The Clerk of the House has requested a cheque which for some reason the comptroller thinks is illegal and a proposed illegal application of public funds. Presumably, it has been called to the attention of the Speaker by the official, the clerk, or the comptroller, and it may be that the Speaker upholds this particular official. You have the question then of who will decide as between the comptroller and the Speaker or, if you like, the Clerk of the House. You have to find something that corresponds to the Treasury Board in the case of another department.

The original form of this subsection assumed that the appropriate select standing committee of the House, let us say the internal economy committee, was the body that would provide the independent judgment and would arbitrate, but if you cannot do it that way, I do not know what to do.

The CHAIRMAN: The internal economy committee is not a select standing committee of the House, so, if we do that, if there is any hesitation as to choosing between the words "the Senate or the House of Commons" and the wording "the appropriate minister" I might suggest "the internal economy committee of the House."

Mr. MACDONNELL: Who are on the internal economy committee?

The CHAIRMAN: They sit all the time—three ministers plus the Speaker. Paragraph 16 of the House of Commons Act reads:

The Governor in Council shall appoint four members of the King's Privy Council for Canada who are also members of the House of Commons who with the Speaker of the House of Commons shall be commissioners for the purposes of this and the four next following sections.

Then you come to 18:

All sums of money voted by parliament upon such estimates or payable to members of the House of Commons, . . . etc., . . . shall be subject to the order of the commissioners or any three of them of whom the Speaker shall be one.

So, the internal economy committee is not a select standing committee and it would be the appropriate body here—

Mr. SINCLAIR: What about the Senate? The Senate have not got one? And what about the library?

Mr. WRIGHT: That is the difficulty; the Senate has not got the same body we have.

The CHAIRMAN: I stick to my first opinion, the select standing committee should not be included.

Mr. SINCLAIR: The internal economy committee might apply to the House of Commons but it does not apply to the Senate nor the joint committee for the library. On the question of the comptroller giving his views to the Minister of Finance, and the Minister of Finance formally informing the Speaker, the Speaker is going to take a very good look at it.

The CHAIRMAN: But who will decide?

Mr. SINCLAIR: The Speaker will decide. If he is wrong, then six months later in the Auditor General's report Mr. Watson Sellar will mention the matter referred by the minister to the Speaker pointing out that he feels that the Speaker has exceeded his authority—I think it will be a long time before we have a Speaker getting himself reported in the Auditor General's report.

The CHAIRMAN: In all other cases you have the Treasury Board as the judge. In this case you leave the minister and his officials who have done the thing to be the judge. I think we can say the internal economy commission—

Mr. SINCLAIR: But that leaves the Senate and the library—the other two—out in the cold.

Mr. FULTON: May I ask Mr. Sellar if the Senate has any committee that corresponds to our internal economy committee?

Mr. SELLAR: Yes, sir.

Mr. FULTON: Can we not say—

The CHAIRMAN: What is the name of the committee?

Mr. SELLAR: I think it is what they call the Committee on Expenditures, although I do not want to swear to it.

Mr. FULTON: Why not say "refer it to the appropriate committee"?

Mr. WRIGHT: I suggest we leave this over until we find out who are the appropriate people.

Mr. CROLL: I am informed it is the Internal Economy and Expenditures Committee of the Senate.

The CHAIRMAN: Well then, let us say ". . . to the Internal Economy and Expenditures Committee of the Senate or the Internal Economy Committee of the House to decide."

Mr. SINCLAIR: Then Mr. Wright's motion is back in order.

The CHAIRMAN: No, because the Internal Economy Committee is not a standing committee of the House.

Mr. SINCLAIR: But on the Senate it is—then what about the library? The library is run by a joint committee of both Houses.

The CHAIRMAN: Well, I will probably be accused of having delayed the proceedings of the committee, but I think we should leave this open and try to get agreement among the legal authorities on the wording.

Mr. KIRK (*Digby-Yarmouth*): Before you leave that, could we have Mr. Sellar comment on Mr. Sinclair's last remark?

Mr. SELLAR: Mr. Chairman, I have been discussing this with hon. members around me and I think Mr. Sinclair is wrong.

Mr. SINCLAIR: Good.

Mr. SELLAR: He says that if the Speaker makes a payment that is not in my opinion correct, six months later it will appear in my report. I say no: that under the Act the Speaker has a statutory discretion and whatever he decides is right, and I have nothing to say about it. I may be wrong, but that is my impression.

The CHAIRMAN: We will try to iron it out during the dinner recess.

At this point I should say that Mr. Macdonnell had asked for the privilege of putting a few questions on Crown corporations' powers.

Mr. MACDONNELL: I hope that is not a privilege.

The CHAIRMAN: Yes, it is, because what I told you in a way amounts to giving a privilege because you are not dealing directly with the bill we have now.

Mr. MACDONNELL: But I asked earlier at what point I should speak. There must be some place where we can discuss the powers of Crown corporations.

Mr. SINCLAIR: In their Act.

Mr. CROLL: Mr. Chairman, may I suggest to Mr. Macdonnell that the powers of Crown corporations are discussed on the floor of the House—and they are either extensive or narrow.

Mr. SINCLAIR: Speak on the matter when their bills of incorporation are being presented. We might just as well discuss the powers of various ministers in departments under this bill.

Mr. CROLL: As I recall it, in the last four or five years we have had crown corporations. There have been bills before us wherein the powers were set out and they varied from time to time, depending upon the kind of work these corporations intended to do. The Maritime Commission was one, and I think Polymer was up one time.

Mr. MACDONNELL: Just looking at it for the moment, let us take clause 83. I let clause 83 go past with the understanding that this question of powers could come up.

Mr. CROLL: It is all right with me to bring it up.

Mr. MACDONNELL: The clause in question, I submit—

Mr. FLEMING: Go ahead and ask the question.

Mr. SINCLAIR: On agency corporations?

Mr. MACDONNELL: What I want to raise I think is a question that has considerable interest, at any rate, and it may at least involve a recommendation of this committee which could be dealt with later on.

I want to raise the question of what is the reason for the broad powers that several of the companies have? We have been given a list here, and several companies are incorporated with broad powers—some of them I think are perfectly irrelevant and quite improper for crown corporations. The answer may be that they are never exercised, but I do want to raise the question of whether they should carry on any other business, have the power to lend money to any other company, the power to sell and dispose of undertakings—are those proper and relevant powers for crown corporations?

The CHAIRMAN: Would not the minister be the one to answer? Those are questions of policy. The powers given to each corporation was a matter of policy discussed in cabinet and recommended by the appropriate minister, and acceded to by the Minister of Finance.

Mr. MACDONNELL: If I may discuss this with the minister—

Mr. SINCLAIR: Are we not getting an awful long way away from this bill? The various Acts of parliament setting up crown companies spell out the powers and responsibilities of those companies. All this Act is doing is giving us some control, some audit. In their Act of incorporation they are given powers to buy and sell, but this is not an Act for the administration of crown companies. This is the Financial Administration Act. If we are going to have each minister responsible for crown companies to come before us as if we were a committee on crown companies and ask what powers they have and what they can and cannot do—

Mr. MACDONNELL: I do not suggest that.

Mr. SINCLAIR: But very close to it.

The CHAIRMAN: Section 83 which we approved says:

The Governor in Council may make regulations with respect to the conditions upon which an agency corporation may undertake contractual commitments.

Now, Mr. Macdonnell knows that some of these corporations undertake contractual commitments according to their present charter but he wants to get further information as to what their powers are. I am in the hands of the committee. I think it was agreed that within reasonable limits you could in a short time ask a few relevant questions on the matter once we had the chapter approved. If the committee does not want to stand by my agreement—

Mr. JUTRAS: Section 83 applies in awarding contracts?

The CHAIRMAN: Contractual commitments and Mr. Macdonnell wants to refer—

Mr. JUTRAS: Mr. Macdonnell referred a moment ago to the various powers. He referred to powers generally and he referred specifically to many powers that he did not expect would be used. In other words, he refers to the general powers and surely that is completely out of order.

The CHAIRMAN: Maybe he would like to get on with contractual commitments.

Mr. MACDONNELL: If you will say to the minister when he comes here that I raised this question and open the door for me to just raise it with him—

The CHAIRMAN: He will be at liberty to answer or not.

Mr. MACDONNELL: If he refuses I will be content.

Mr. JUTRAS: I do not think it is a matter that should be left with the minister.

The CHAIRMAN: We cannot force him to answer a question but we can tell him that a member has raised such a point.

Mr. FLEMING: May I ask Mr. Sellar this question on the point, please?

May I ask Mr. Sellar on this point if he has had occasion at any time to report that any of the crown corporations have exceeded their corporate powers or proper functions?

Mr. SELLAR: Let me narrow that question down so when I am thinking I do not have to cover too much territory. You are referring to companies created under The Companies Act?

Mr. FLEMING: Not necessarily, I am speaking of crown corporations.

Mr. SELLAR: In my present report which is before the committee, I am raising the point that the Federal District Commission charged certain expenses which I considered as being beyond the authority given them by the Act—if that is what you mean?

Mr. FLEMING: Well, I am thinking more particularly of the question of powers. That would be one phase: expending money for some unauthorized purpose. Is there any other type of situation you have encountered which has involved an excess on the part of a crown corporation of its proper corporate powers and its functions?

Mr. SELLAR: I have been consulted twice as to whether they had the power to do certain things.

Mr. FLEMING: Were they in excess of the powers of the corporation?

Mr. SELLAR: Well, they did involve the application of ancillary powers in section 14 in the Act.

Mr. WRIGHT: There is another point I want to raise with regard to Mr. Sinclair's statement that the powers of these various corporations are set out in their Acts of incorporation and that they do come before parliament. I see at least one corporation here that I do not think was ever set up in that way, the Canadian Sugar Stabilization Corporation, which I think was set up by Order in Council under the War Measures Act and therefore its powers would be indicated in the Order in Council which while it was tabled in parliament was never discussed in parliament.

The CHAIRMAN: The purpose of this committee at the moment is to study bill number 25. I do not see anything wrong in what Mr. Macdonnell has just stated, that he would be satisfied when the minister comes here to ask him questions. I think the minister is a responsible person and if he feels that a matter, in his opinion, does not come within the purview of this Act, then it is up to him so to answer.

Mr. MACDONNELL: The other point that I raised was this: I asked for a list of the directors of the various crown corporations. Am I able to have that?

The CHAIRMAN: Whether you would have that today or not—

Mr. MACDONNELL: I want to discuss that with the minister; about a question of policy.

The CHAIRMAN: That goes much beyond the Act and much beyond Section 83. As far as we are concerned I think it is fair for me to ask that we should not pursue those questions now. When the minister is here—he is a responsible person—if he feels that the information requested is not relevant to bill number 25 he will say so and that will end the matter. Now, shall we go on with the bill, section—

Mr. CLARK: Mr. Chairman, I have here a list of the directors of the crown corporations that come under the Department of Defence Production. We have not been able to get the others as yet. Would those of the Department of Defence Production be of use?

The CHAIRMAN: I would think that tonight or tomorrow when the minister is here would be the time to bring up questions about that matter. If we finish this Bill now we will have him tonight. We are now on part IX, civil liability and offences, section 89:

89. (1) Whenever the Minister has reason to believe that any person
- (a) has received money for His Majesty and has not duly paid it over,
 - (b) has received money for which he is accountable to His Majesty and has not duly accounted for it, or
 - (c) has in his hands any public money applicable to any purpose and has not duly applied it,

the Minister may cause a notice to be served on such person, or on his representative in case of his death, requiring him within such time from the service of the notice as may be named therein, duly to pay over, account for, or apply such money, as the case may be, and to transmit to the Minister proper vouchers that he has done so.

(2) Where a person has failed to comply with a notice served on him under subsection one within the time stated therein, the Minister shall state an account between such person and His Majesty, showing the amount of the money not duly paid over, accounted for or applied, as the case may be, and, in the discretion of the Minister, charging interest on the whole or any part thereof at the rate of five per cent per annum from such date as the Minister may determine, and in any proceedings for the recovery of such money a copy of the account stated by the Minister, certified by him, shall be *prima facie* evidence that the amount stated therein, together with interest, is due and payable to His Majesty, without proof of the signature of the Minister or his official character, and without further proof thereof, and such amount and interest may be recovered as a debt due to His Majesty.

Mr. FULTON: I would like to ask Mr. Henry just as a matter of curiosity whether clause 89 is wide enough to cover the procedure for the recovery of arrears of taxes or whether this only applies to other types of debts to the crown?

Mr. HENRY: No, sir, section 89 is not intended to be a tax collecting provision. It is intended to provide recourse to the crown for the purpose of recovery of money that is accountable to the crown, that has been paid to somebody to be paid to the crown; in other words, it is to cover the case where an officer of the crown or some other person on behalf of the crown has received money which has not been paid over. In the case outlined—

Mr. FULTON: It does not cover taxes?

Mr. HENRY: No, taxes that have not been paid by the taxpayer are not yet moneys that belong to the crown.

Mr. FULTON: I notice here that clause (b) says, "has received money for which he is accountable to His Majesty and has not duly accounted for it, or—" I was wondering—

Mr. HENRY: Unfortunately, I do not think we can say that there is any recourse under this section against such persons.

The CHAIRMAN: Order, gentlemen. How do you expect the reporter to be able to take down our proceedings with all this noise.

Mr. HENRY: I may say that section 89 is in practically the same form as sections 58 and 59 in the other Act. It has just been clarified a little bit by some paragraphing. There is no change in the substance at all.

Mr. FULTON: The other point I wanted to make applies to a similar provision in this part—

The CHAIRMAN: Let us deal with 89, the clause we are on.

Mr. FULTON: This is 89 as well. I just wanted to ask how long it has been a provision of the law under this heading that accounts stated by the minister and certified by him, "shall be *prima facie* evidence that the amount stated therein, together with interest, is due and payable to His Majesty, without proof of the signature of the minister or his official character, and without further proof thereof, and such amount and interest may be recovered as a debt due to His Majesty," and that is repeated in the same form in other sections under this Act.

Mr. HENRY: My recollection of this, Mr. Chairman, is that that section goes back to 1867.

Mr. FULTON: In that form?

Mr. HENRY: The words may not be exactly the same but to my recollection that provision does go back that far.

Carried.

The CHAIRMAN: Shall section 90 carry?

90. Where it appears

(a) by the books or accounts kept by or in the office of any person employed in the collection or management of the revenue,

(b) in any accounting by such person, or

(c) by his written acknowledgement or confession

that such person has, by virtue of his office or employment, received money belonging to His Majesty and has refused or neglected to pay over such money to the proper persons at the proper times, an affidavit deposing to such facts, taken by any person having knowledge thereof, shall, in any proceedings for the recovery of such money, be received in evidence and shall be *prima facie* proof of the facts stated therein.

Carried.

Section 91.

91. Where by reason of any malfeasance, wilful neglect of duty or gross negligence by any person employed in collecting or receiving any public money, any sum of money is lost to His Majesty, such person is accountable for such sum as if he had collected and received it and it may be recovered from him as if he had collected and received it.

Carried.

Mr. FULTON: Isn't that rather wishful thinking?

Mr. CHAIRMAN: Pardon me?

Mr. FULTON: I said, is not 91 wishful thinking?

The CHAIRMAN: It is for you to decide whether you have any questions to ask on it or not.

Shall 91 carry?

Carried.

Section 92.

92. Every officer or person acting in any office or employment connected with the collection, management or disbursement of public money who

- (a) receives any compensation or reward for the performance of any official duty, except as by law prescribed;
 - (b) conspires or colludes with any other person to defraud His Majesty, or makes opportunity for any person to defraud His Majesty;
 - (c) designedly permits any violation of the law by any other person;
 - (d) wilfully makes or signs any false entry in any book, or wilfully makes or signs any false certificate or return in any case in which it is his duty to make an entry, certificate or return;
 - (e) having knowledge or information of the violation of any revenue law by any person, or of fraud committed by any person against His Majesty, under any revenue law of Canada, fails to report, in writing, such knowledge or information to his superior officer; or
 - (f) demands or accepts or attempts to collect, directly or indirectly, as payment or gift or otherwise, any sum of money, or other thing of value, for the compromise, adjustment or settlement of any charge or complaint for any violation or alleged violation of law,
- is guilty of an indictable offence, and is liable on conviction to a fine not exceeding five hundred dollars, and to imprisonment for any term not exceeding five years.

Carried.

Shall 93 carry?

93. Every person who

- (a) promises, offers or gives any bribe to any officer or any person acting in any office or employment connected with the collection, management or disbursement of public money, with intent
 - (i) to influence his decision or action on any question or matter that is then pending, or may, by law, be brought before him in his official capacity, or
 - (ii) to influence such officer or person to commit, or aid or abet in committing any fraud on the revenue, or to connive at, collude in, or allow or permit any opportunity for the commission of any such fraud, or
 - (b) accepts or receives any such bribe,
- is guilty of an indictable offence, and is liable on conviction to a fine not exceeding three times the amount so offered or accepted, and to imprisonment for any term not exceeding five years.

Carried.

Shall 94 carry?

94. All books, papers, accounts and documents kept or used by, or received or taken into the possession of any person who is or has been employed in the collection or management of the revenue or in accounting for the revenue, by virtue of that employment, shall be deemed to be chattels belonging to His Majesty; and all money or valuable securities received or taken into the possession of any such officer or person by virtue of his employment shall be deemed to be money and valuable securities belonging to His Majesty.

Carried.

Now we come to Part 10—Miscellaneous.

Shall section 95 carry? Are there any comments?

95. (1) Where, in the opinion of the Minister of Justice, any person is indebted to His Majesty in right of Canada in any specific sum of money, the Treasury Board may authorize the Minister of Finance to retain by way of deduction or set-off the amount of any such indebtedness out of any sum of money that may be due or payable by His Majesty in right of Canada to such person.

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(2) Where, in the opinion of the Minister of Justice, any person is indebted in any specific sum of money on account of taxes payable to any province, and an agreement exists between Canada and the province whereby Canada is authorized to collect the tax on behalf of the province, the Treasury Board may authorize the Minister of Finance to retain by way of deduction or set-off, out of any sum of money that may be due or payable by His Majesty in right of Canada to such person, the amount of such indebtedness, but the amount so retained shall not exceed the amount that might under the laws of the province be seized or attached under execution or garnishee proceedings.

(3) Where, in the opinion of the Minister,

- (a) any person is indebted to a province in any specific sum of money by reason of his having received from the province a payment, in respect of which Canada has contributed under the provisions of any Act, to which he was not entitled, and
- (b) the province has made reasonable efforts to effect recovery of the amount of such indebtedness,

the Treasury Board may authorize the Minister to retain by way of deduction or set-off the amount of such indebtedness out of any sum of money that may be due and payable by His Majesty in right of Canada to such person, and the amount so deducted less the portion thereof that in the opinion of the Minister is proportionate to the contribution in respect thereof made by Canada, may be paid to the province out of the Consolidated Revenue Fund.

Carried.

Mr. WRIGHT: Could we get some explanation of what additions there are in this section 95? I see that (3), (a), and (b), are new.

Mr. BALLS: Well, Mr. Chairman, the new provision gives the Treasury Board authority to authorize the Minister of Finance to retain out of any money due and payable by His Majesty in right of Canada to any person, any specific sum of money for which such person is indebted to a province by reason of his having received from the province a payment in respect of which Canada has contributed under the provisions of any Act and to which he is not entitled and in respect of which the province has made reasonable efforts to effect recovery of the amount of such indebtedness. This is the type of case in which a person may have a debt due to the Crown in the right of a province but in respect of money in which the federal government has made some contribution.

Mr. WRIGHT: Such as old age security?

Mr. BALLS: Old age security, for instance, where overpayment has been made by a province to an individual, part our money and part provincial. This section would help to collect it.

Mr. WRIGHT: What is that?

Mr. BALLS: It would help collect the over-payment out of the money we would be paying to that particular person.

Mr. KIRK (*Digby-Yarmouth*): In similar cases in the past was the only method of collection through the provincial authorities or through the courts?

Mr. BALLS: Yes, but now we will be able to do it by withholding the amount from moneys that we would otherwise have to pay out.

Mr. CLARK: We had no such law in the past.

The CHAIRMAN: Shall section 95 carry?

Carried.

Shall section 96 carry?

96. Whenever it appears to the Governor in Council that any account, statement, return or document required by any Act of Parliament or otherwise to be laid before one or both Houses of Parliament contains the same information as or less information than is contained in the Public Accounts, the Governor in Council may direct that the account, statement, return or other document be discontinued, and thereafter it need not be prepared or laid before either House of Parliament.

Carried.

Shall section 97 carry?

97. Subject to any other Act of Parliament, no transfer, lease or loan of property owned by His Majesty in right of Canada shall be made to any person, except in accordance with regulations or on the direction of the Governor in Council.

Carried.

Shall section 98 carry?

98. (1) There shall be established in the Consolidated Revenue Fund a special account to be known as the Public Officers Guarantee Account to which shall be transferred or credited, in accordance with the regulations,

(a) the balance of the Government Officers Guarantee Fund,
(b) amounts paid by departments by way of premiums, and
(c) amounts recovered by His Majesty in respect of payments out of the said Account or the Government Officers Guarantee Fund,
and payment may be made out of the said Account, in accordance with the regulations, by way of indemnity for losses suffered by His Majesty or others by reason of defalcations or other fraudulent acts or omissions of public officers.

(2) The Treasury Board may make regulations

(a) prescribing the conditions upon which payments may be made out of the Public Officers Guarantee Account,
(b) requiring departments to deposit amounts to the credit of the said Account, and
(c) governing the operation of the said Account by the Minister.

(3) Every payment out of the Public Officers Guarantee Account and the amount of every loss suffered by His Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, shall be reported annually in the Public Accounts.

Mr. FLEMING: May we have a word of explanation about section 98?

Mr. CLARK: This refers to the public officers guarantee fund, which we discussed the other morning. You may remember that this is the legislative framework for the scheme that we have had in effect since 1936. It provides for a guarantee fund, a system of bonding of employees of the government, particularly those engaged in the collection of moneys, or those who have in their custody public moneys.

Each of the departments pays a premium out of its estimates in respect of a number of employees which they wish to have bonded. That premium is paid into the fund and losses are paid out of the fund. That scheme has been in operation, as I said the other day, since 1936 and it has been, I think, a very effective device which has resulted in the building up of a fund of around \$600,000 or \$700,000 with losses so far paid out of only about \$50,000.

The CHAIRMAN: Shall section 98 carry?

Carried.

Shall section 99 carry?

99. No bank shall make a charge for cashing a cheque or other instrument drawn on the Receiver General or on his account in the Bank of Canada or any other bank, or for cashing any other instrument issued as authority for the payment of money out of the Consolidated Revenue Fund, or in respect of any cheque or other instrument drawn in favour of the Receiver General, the Government of Canada or any department thereof or any public officer in his capacity as such, and tendered for deposit to the credit of the Receiver General.

Mr. FRASER: Why is it necessary to put this in here when it is in the Bank Act and it is only referring to the Bank Act.

Mr. HENRY: In the first place, there is included a provision to cover cheques drawn in favour of the Receiver General of Canada. It is not provided for in the Bank Act; and in the second place, when the Bank Act is revised, as it will have to be, this will be left out at that time.

Mr. FRASER: I just want to ask if cheques at the present time for deposit have ever been charged for? Have charges been made to collect, when those cheques were made out to the Receiver General?

Mr. CLARK: Not for a great many years anyway.

Mr. FRASER: That has always been something that the bank has given free, has it not?

Mr. CLARK: Yes.

The CHAIRMAN: Shall section 99 carry?

Carried.

Shall section 100 carry?

100. The Governor in Council may make regulations for carrying the purposes and provisions of this Act into effect.

Carried.

We are now up to Part XI—Repeal.

Shall section 101 carry?

101. (1) The enactments set out in the first column of Schedule E are repealed to the extent specified in the third column of that Schedule.

(2) Upon the coming into force of this Act, Parliament shall be deemed to have authorized the Department of Transport to operate a revolving fund for the purpose of acquiring and managing stores and to have fixed the amount of four million dollars as the amount that may be charged to that fund at any one time, against which shall be charged the value of stores then on hand.

Carried.

Shall section 102 carry?

102. This Act or any Part thereof shall come into force on a day or days to be fixed by proclamation of the Governor in Council.

Carried.

Gentlemen, we have concluded the Act except for clause 31 which we have to consider for redrafting, and clauses 38 and 39 on page 13. Also, clause 71 on page 22, and the schedules.

On page 32 there is schedule A. Shall Schedule A carry?

SCHEDULE A

Department of Agriculture.
Department of Citizenship and Immigration.
Department of Defence Production.
Department of External Affairs.
Department of Finance.
Department of Fisheries.
Department of Insurance.
Department of Justice.
Department of Labour.
Department of Mines and Technical Surveys.
Department of National Defence.
Department of National Health and Welfare.
Department of National Revenue.
Post Office Department.
Department of Public Works.
Department of Public Printing and Stationery.
Department of Resources and Development.
Department of the Secretary of State of Canada.
Department of Trade and Commerce.
Department of Transport.
Department of Veterans Affairs.

Carried.

Shall Schedule B carry?

SCHEDULE B

Agricultural Prices Support Board.
Atomic Energy Control Board.
Canadian Maritime Commission.
Director of Soldier Settlement.
The Director, The Veterans' Land Act.
Dominion Coal Board.
Fisheries Prices Support Board.
National Gallery of Canada.
National Research Council.
Unemployment Insurance Commission.

Carried.

Shall Schedule C carry?

Canadian Arsenals Limited.
Canadian Commercial Corporation.
Canadian Patents and Development Limited.
Canadian Sugar Stabilization Corporation Ltd.
Commodity Prices Stabilization Corporation Ltd.
Crown Assets Disposal Corporation.
Defence Construction (1951) Limited.
Federal District Commission.
National Battlefields Commission.
National Harbours Board.
Park Steamship Company Limited.

Carried.

Shall Schedule D carry?

Canadian Broadcasting Corporation.

Canadian Farm Loan Board.

Canadian National (West Indies) Steamships, Limited.

Canadian Overseas Telecommunication Corporation.

Central Mortgage and Housing Corporation.

Eldorado Mining and Refining (1944) Limited.

Export Credits Insurance Corporation.

National Railways as defined in the *Canadian National-Canadian Pacific Act, 1933*.

Northern Transportation Company (1947) Limited.

Northwest Territories Power Commission

Polymer Corporation Limited.

Trans-Canada Air Lines.

Carried.

Shall Schedule E carry?

<i>Title</i>	<i>Citation</i>	<i>Extent of Repeal</i>
The Consolidated Revenue and Audit Act, 1931.....	1931, c. 27.....	the whole.
Department of Finance and Treasury Board Act.....	R.S.C. 1927, c. 71.	sections 1 to 13.
The Department of Transport Stores Act.....	1937, c. 28.....	the whole.
Board of Audit Act.....	R.S.C. 1927, c. 10.	the whole.
Contingencies Act.....	R.S.C. 1927, c. 31.	the whole.
Debts due to the Crown Act	1932, c. 18.....	the whole.
The Government Companies Operation Act	1946, c. 24.....	secs. 3, 4, 5, 6 and 10.

Carried.

Mr. WRIGHT: Mr. Chairman, with regard to these schedules I wish to have something more to say with respect to incorporating the Wheat Board in them.

The CHAIRMAN: I think that would be something for the minister when he comes before us. You will have an opportunity then when the minister is here to raise that matter.

Mr. WRIGHT: But if you have already passed the Schedules, you might say that I could not discuss them.

The CHAIRMAN: Oh, no. It has been agreed that when the minister is here we will first bring up the matters which have been specially asked to be brought to his attention, and then other questions that may be relevant to the Act may be asked of him and it is up to him as to what he wants to say. As I say, we have four clauses left in abeyance, with the minister's evidence, so I would suggest, if you do not mind, that we get together tonight at 8.30 to conclude this.

Mr. FRASER: Mr. Clark said he would give me the figures regarding section 23.

Mr. CLARK: Mr. Chairman, I asked immediately one of my officials to get the facts together on that. I will give them to you just as soon as I get them.

Mr. FLEMING: Are amendments ready on those other sections, Mr. Chairman? You can tell us now so that we might ponder them between now and 8.30.

The CHAIRMAN: On section 71, page 22, the amendment is as follows: substitute "person or organization" in place of "undertaking or service", in line 33.

Mr. FLEMING: I subscribe to that.

The CHAIRMAN: Shall section 71 as amended carry?

Carried.

Mr. CLARK: Mr. Chairman, we are ready on section 60.

The CHAIRMAN: That was approved yesterday.

Mr. CLARK: Oh, yes. We are not ready on section 38.

Mr. FRASER: Did not sections 38 and 39 stand?

The CHAIRMAN: Yes. The officials will be ready tonight to give us information on these.

The committee adjourned to meet at 8.30 p.m.

EVENING SESSION

The CHAIRMAN: Order, gentlemen. We have with us this evening the Minister of Finance, Mr. Abbott. I wonder if the committee will agree that we should proceed with the minister or would you prefer that we should clear up the only three items that are outstanding still to be definitely approved of. We have only section 31 (6), on page 11, and 38 and 39, on page 13. As the minister may be busy, perhaps we had better hear him right now.

Mr. SINCLAIR: My understanding was that these sections were held over because we wanted to hear the minister on them.

The CHAIRMAN: Not necessarily in the case of 31 (6), but especially for Mr. Wright who has some questions to ask about the wheat board, as to why it was not included. Is it the desire of the committee that we should take the items and look into them item by item?

Agreed.

The CHAIRMAN: All right, section 31 (6), on page 11. The matter was brought to our attention this afternoon that there was nearly a crime committed in that Mr. Wright's motion brought our attention to what we had done yesterday when we stated in line 46, page 11 that the matter should be referred to the attention of the appropriate select standing committee and it was decided that was wrong because no standing committee can decide anything, it can only report to the House. Now, I am in duty bound to submit two amendments, and probably we can then decide which we prefer. I saw the law clerk of the House and he proposed one, and in the meantime the solicitor for the treasury brought in another one. The one which came from the law clerk of the House was this:

That all the words after "the" in line 43 be deleted and the following be substituted therefor:

. . . Senate, the House of Commons or the library of parliament he shall report forthwith to the minister who shall draw the matter to the attention of the Senate, or the House of Commons as the case may be or to both the Senate and the House of Commons in cases respecting the library of parliament, for appropriate action.

Now, that is one version. Another one which comes from the solicitor for the treasury would substitute an entirely new subsection which I will read to you now:

Whenever the comptroller is of the opinion that a doubt exists as to the legality or otherwise of a proposed charge to an appropriation provided for the expenses of the Senate, the House of Commons or the library of parliament, he shall forthwith, through the minister, draw the matter to the attention of the appropriate minister who shall obtain a decision in accordance with such procedure as may from time to time be prescribed by the Senate or the House of Commons as the case may be or, in the case of the library of parliament, by the Senate and the House of Commons, and the comptroller shall act in accordance with the decision.

Hon. Mr. ABBOTT: I think I should say that the department would have no objection to either one. I think the section as drawn overlooked an important procedural point, but probably either one of those would more accurately reflect what the procedure should be.

Mr. SINCLAIR: I move that the second one be adopted.

Mr. FRASER: That is what I was going to do too, Mr. Chairman.

The CHAIRMAN: There is a motion by Mr. Sinclair that the second clause that I just read should replace subsection 6 of section 31.

Shall the motion carry?

Carried.

Then, section 31 is carried in its entirety. We now go over to section 38. I think the solicitor for the treasury has an amendment to offer on this section 38.

38. It is a term of every contract providing for the payment of any money by His Majesty that payment thereunder is subject to there being an appropriation for the particular service for the fiscal year in which any commitment thereunder would come in course of payment.

Hon. Mr. ABBOTT: I did not think that there was any thought about an amendment. I understand the question was raised here that it was perhaps unfair to people who are contracting with the government that their rights should be contingent upon, at least, their right to recover money, should be contingent upon parliament voting an appropriation at a subsequent session. In fact, as the committee knows, the constitutional practice has always been that votes lapse at the end of the year and any contract which was entered into is always subject to the implied condition that parliament will vote the moneys to carry it out. This section, as I understand it, was intended to put into statutory terms what has in fact been the practice. There has never been a case of which I am aware that a successor government has refused to honour the obligations incurred by a predecessor. There has never been a case where parliament has refused to vote the necessary moneys to carry out contracts which have been entered into. The purpose of this section, I think, is that it is desirable that the government should have to go to parliament each year for a vote to carry through a contract which is entered into. And there is this further point too, I think, that the government of the day, the Minister of Finance of the day, must estimate as accurately as he can his expenditures for the 12-month period and if he over-estimates or under-estimates that shows up when he has to go to parliament for revotes or for supplementaries. I would not think that any person dealing with the government would be prejudiced by the inclusion of a condition of this kind and it does seem to me that it imposes a little greater parliamentary control over the expenditure required. That is the only reason for putting it in. As far as the Department of Finance is concerned, or as far as the executive is concerned, we would be better off without such a section. It is a check, and I

do not think that any citizen is prejudiced in his dealings with the government. I would say this is a desirable section to have in a general Act dealing with public moneys.

Mr. MACDONNELL: It will not have the effect of discouraging persons from taking on government contracts?

Hon. Mr. ABBOTT: I have never known of anybody refusing a government contract because they were afraid parliament would refuse to vote in the next year the moneys necessary for carrying out contracts. That is our reason for putting it in.

Mr. MACDONNELL: Is there any specific clause in a contract to cover that situation?

Hon. Mr. ABBOTT: Mr. McIntyre would know more about that than I do.

Mr. MCINTYRE: Every purchase order is a contract and there are thousands of them. In the larger contracts, in the construction contracts, there would be no objection to specific mention of this in the contract. It can be done. But in any case it is well known by those who are taking on larger government contracts that this is a constitutional requirement and that moneys have to be voted by parliament before they can be paid over on account of the contract price in the same way that the civil service know that if there is not enough money voted in the appropriations each year, they cannot get an increase in salary.

Mr. CAVERS: I think the suggestion the other day was that when a contract was drawn, the solicitor should make it a term of the contract rather than the term being made in a statute to apply to every contract.

The CHAIRMAN: That is right. That is one of the main arguments.

Hon. Mr. ABBOTT: It has been standard practice under the British parliamentary system that moneys to carry out previous contractual obligations must be voted by parliament and that the votes will lapse at the end of the year, and that, speaking as Minister of Finance, I try to estimate each year, in order to reflect accurately what our out-go is likely to be, an amount which will be required to be paid out under outstanding contracts during the fiscal period.

If I under-estimate the amount, I have to come back for a supplementary estimate at the end of the year. But I do think there is some value in the executive being obliged to come frequently and say what amounts they require to carry out current obligations. I do not think there is chance of any private citizen contracting with the government being prejudiced by a rule of that kind. It is a rule which is intended to impose some measure of control on the executive.

Mr. MACDONNELL: Does anyone object to this clause?

Hon. Mr. ABBOTT: I would not think there was any danger.

The CHAIRMAN: Yes. The idea was expressed by some of the members of the committee that somebody might in good faith enter into a contract with the government and that he might have recourse to the courts to get judgment in order to get paid; and that in the meantime the appropriation would not have been voted by parliament and there would not be the money with which he could be paid even if he had a judgment from the Exchequer Court. I am trying to find it.

Hon. Mr. ABBOTT: Mr. McIntyre informs me that it is now standard practice to include a clause or a statement setting out this condition in construction contracts. I suppose it is done more as a matter of information, or is it a contractual obligation? Yes.

The CHAIRMAN: The gentleman who was most concerned about it was Mr. Fleming. Mr. Campney also asked a question about it.

Hon. Mr. ABBOTT: I was hoping the committee would feel that this could stay in because I do not think anybody would be prejudiced by it.

The CHAIRMAN: Does section 39 carry?

Carried.

Mr. MACDONNELL: I would like to say this, Mr. Chairman: Mr. Fleming is not able to be here, but I would not like to feel that he would be precluded from saying something about it in the House of Commons.

The CHAIRMAN: Oh no. If Mr. Fleming gets here tonight before the minister has gone, I do not see why he should not be able to put a question on it.

I received a communication from the secretary, or the assistant general manager of the Canadian Construction Association. I have his letter before me and I think I am bound to read it to the committee. It deals more with bill 26 and it concerns public works more than this one, but since a public body of that importance has communicated to the committee, I think we should take notice of their letter. So I shall read the letter as follows:

Re: Bill No. 25 and Bill No. 26

Dear Mr. PICARD:

In introducing bill No. 26 in the House of Commons on November 23, Mr. Fournier stated that it would be consequential on the passing of bill No. 25 (The Financial Administration Act). The present Act provides that the minister shall invite tenders by public advertisement except in cases of pressing emergency, where work is being carried out by government employees or "where the estimated cost of the work is less than \$5,000 and it appears to the minister, in view of the nature of the work, that it is not advisable to invite tenders". This latter exception is changed in bill No. 26, however, to read that tenders may not be invited publicly if "the minister is satisfied that the nature of the work renders a call for tenders by public advertisement impracticable...".

Officials of the Department of Public Works have advised us that a stipulation setting an amount over which tenders on federal construction jobs would have to be publicly invited would likely be included in the regulations provided for in section 39 of bill No. 25. While this section states that "Governor in Council may make regulations with respect to the conditions under which contracts may be entered into...", it is understood that present intentions in this regard only contemplate the setting of an amount over which contracts will have to be approved by the Governor in Council or the Treasury Board. In summary, therefore, bills No. 25 and 26 would seem to enable ministers to award contracts to up to, say \$25,000, without approval of the Governor in Council or the Treasury Board and to refrain from publicly inviting tenders if considered impracticable to do so. No details are given with regard to the conditions where public tenders calls might be deemed "impracticable" nor is any limit placed on the size of such projects.

It is appreciated that the purpose of bill No. 26 is intended to legalize current government practice in the awarding of contracts without the calling of competitive tenders with regard to repair or renovation jobs and some projects in remote areas. Such a procedure, it might be added, is the accepted practice throughout the industry. At the same time, members of the construction industry on being advised of the contents of bill No. 26 expressed concern that it might tend to facilitate the relaxation of current practices concerning the public invitation of tenders on federal projects in some departments.

The policy of advertising for tenders for construction work, as required for in the present Public Works Act, is generally followed by federal departments and has served to ensure that all members of the public have an equal opportunity in tendering on public works. This fact, together with public tender openings or the publicizing of the names of all bidders and their respective tender amounts, has served to increase the number of contractors bidding on these jobs and has given the government and the public the benefit of greater competition. It has also served to counteract adverse publicity concerning methods followed in the awarding of federal contracts.

The Canadian Construction Association, representing all phases of the construction industry throughout Canada, has adopted a continuing statement of policy at its annual meetings advocating "the calling of competitive tenders of all construction work involving public funds and the public advertisement and opening of these tenders except with regard to work in the 'secret category'". This principle was again endorsed by the C.C.A. Management Committee at a meeting in Toronto on November 13th.

This association therefore strongly recommends to the Public Accounts Committee that the terms concerning the size or nature of public works for which tenders do not have to be publicly invited should not be included in the regulations to be set up with regard to section 39 of bill No. 25 but that they be directly specified in section 36 of bill No. 26. It is felt that such a procedure will not serve to restrict the actions of ministers in negotiating contracts where conditions warrant this practice, but will rather serve to support their actions. It is suggested therefore, that in addition to the exceptions listed in section 36(a) and (b) in bill No. 26, reference should be made to the fact that tenders need not be publicly invited for work in the secret, repair, etc., categories. Then a further exception could be added stating that if the estimated cost of a project is below a certain amount, the minister may decide it advisable not to invite tenders. It is submitted, however, that the place for these provisions is in the Public Works Act rather than in the regulations pertaining to the Financial Administration Act.

Of course, I do not think that this pertains much to the work of our committee because the item we are passing on is article 39 and we are not dealing with the regulations themselves. But in all fairness I thought I was bound to put the letter from the association before the committee. I think it should be transferred to whatever authority will look into bill 26 as well as to the officials who will be drafting the regulations concerning item 39.

Mr. SINCLAIR: The regulations with regard to section 39 are only for security.

Hon. Mr. ABBOTT: And specify the size limits as to contracts which require approval by the Governor in Council or the Treasury Board.

The CHAIRMAN: Shall article 39 carry? It had been left in abeyance only on account of the request which we received from the Canadian Construction Association.

Mr. FRASER: Wait, now, Mr. Chairman. On this section 39, what limit can be put on there? Can there be any limit at all, or is there any limit?—"in excess of such amount or amounts as the Governor in Council may prescribe . . ."

The CHAIRMAN: I think it would be up to the officials who are here to answer that.

Hon. Mr. ABBOTT: Mr. Bryce is familiar with the detail there.

Mr. BRYCE: I think perhaps there might be a guide in the Defence Production Act, which covered a question similar to this, and in that case it was specified that the Governor in Council must approve contracts of over \$25,000 in any case except those where the lowest tender was accepted, and in that case must approve contracts over \$50,000. Now, that was the latest legislation which, I think, reflected the government's view on the matter. In general, the \$5,000 limit has been in effect for many years, in fact it was, I believe, established around the turn of the century when a \$5,000 contract was much larger than it is today. As far as I know the mind of the government, it has been their view that it would be proper to raise that limit to some multiple of \$5,000.

Mr. FRASER: Yes. \$25,000 would not be in line with that; \$15,000 might be.

Mr. MACDONNELL: What multiple have you in mind?

Mr. BRYCE: The only thing I can say, sir, to that, as far as I know the Governor in Council or the Treasury Board has not yet considered what ought to go in here, but, as I said, the Defence Production Act might be used as a guide.

Mr. FRASER: Well, in that letter which was received from the Canadian Construction Association \$25,000 was mentioned and that is likely where they got that.

Hon. Mr. ABBOTT: I think they would be thinking of the Defence Production Act when they mention that.

Mr. FRASER: Yes, and on account of receiving that letter from them I feel we should have some guide as to what the amount should be set at.

Hon. Mr. ABBOTT: They are referring particularly, Mr. Fraser, to bill 26, which is the bill on the public works, and they say that in this letter. As Mr. Bryce has pointed out, neither the government nor the Treasury Board has given consideration to the limit which would be fixed in the regulations, but just speaking offhand, I would think we probably would be likely to take the same sort of limit, as a starter, that has been fixed by parliament in the Defence Production Act. I do not think we would take any higher limit in ordinary contracts. It might be eventually desirable to take a somewhat lower limit, but I do think there should be some flexibility left in there, and that is the purpose of drafting the section in this form.

Mr. FRASER: I see how a contractor and the association feel if you are going to call tenders for \$25,000 and over. If it is only for contracts of that size that tenders will be called, they are a little dubious about whether their men are going to receive word of those contracts.

The CHAIRMAN: The proper place for you to have anxieties about it is when bill 26 is being discussed.

Mr. FRASER: On the public works?

The CHAIRMAN: On the public works, yes, which does not prevent the passing of section 39 as it is, and the regulations to be made, but if bill 26 contains a different amount or overrides any regulations made under this—

Hon. Mr. ABBOTT: You appreciate, Mr. Fraser, the limit we are speaking about, the \$25,000 limit, or the \$10,000 limit has no relation to the calling of tenders, it merely provides for cases where there must be an order in council or a Treasury Board minute.

Mr. FRASER: But that letter, the way I understand it, gave the impression that there were only tenders called for \$25,000 or over.

Hon. Mr. ABBOTT: I think the Canadian Construction Association were concerned with the provisions of bill 26, suggesting that they might be a little

too broad, enabling contracts to be let without tenders being called, but that is a question that I think perhaps should be discussed when we are either in the House on bill 26 or if that bill should be referred here.

The CHAIRMAN: Now, gentlemen, we have concluded our consideration of bill 25.

Hon. Mr. ABBOTT: I wonder if I might be permitted—I do not wish to hold up the bill, gentlemen, but there has been some discussion as to section 77 relating to the eligibility of the Auditor General as an auditor for crown corporations, and I think some concern was expressed that in the case of these companies which are incorporated under the Companies Act it might be competent for the directors of those companies to appoint an auditor without reference to the Governor in Council or anybody else. So, with that in mind I would be happy if someone would move an amendment to section 77 adding this as subsection (1);

Section 77 (1)

Where, in respect of a Crown Corporation

(a) no provision is made in any Act for the appointment of an auditor to audit the accounts and financial transactions of the corporation, or

(b) the auditor is to be appointed pursuant to the Companies Act, 1934,

the Governor in Council shall designate a person to audit the accounts and financial transactions of the corporation.

Subsection (2) will be “notwithstanding any other Act, the Auditor General is eligible to be appointed the auditor, or the joint auditor of a Crown corporation”.

It seems to me that would meet the points which have, very properly, been raised, that it might be competent to the directors of one of these crown corporations, without consulting the government or anybody else, to appoint someone they wanted as auditors.

Mr. MACDONNELL: Which clause is the clause that provides the Governor in Council may ask—oh, yes, section 71.

Hon. Mr. ABBOTT: Could we just move this?

The CHAIRMAN: Mr. Kirk moves that section 77 be amended by adding subsection 77 (1):

Section 77 (1)

Where, in respect of a Crown Corporation

(a) no provision is made in any Act for the appointment of an auditor to audit the accounts and financial transactions of the corporation, or

(b) the auditor is to be appointed pursuant to the Companies Act, 1934,

the Governor in Council shall designate a person to audit the accounts and financial transactions of the corporation.

Mr. GIBSON: Mr. Chairman, that would allow the Governor in Council to appoint the auditors for the Canadian National Railways?

The CHAIRMAN: It makes them eligible.

Mr. GIBSON: It would save a bill being put through parliament each year?

Hon. Mr. ABBOTT: That is right, the effect of it is that the Auditor General is eligible to be appointed auditor of any crown corporation.

The CHAIRMAN: It does not mean that he will be. There will still have to be an Act to appoint him.

Mr. GIBSON: It will save parliament having to pass a bill each year.

Mr. SINCLAIR: You are not forgetting that section 77 now becomes section 77 (2).

Hon. Mr. ABBOTT: The amendment is to insert as subsection (1), the words read by the chairman.

The CHAIRMAN: Shall section 77 as amended carry?

Carried.

Now, gentlemen, the title of the Act has to be approved.

Mr. MACDONNELL: Just one thing, Mr. Chairman, I think that in connection with clause 71 there was some discussion and I would like to feel that this is not finally concluded:

The Auditor General shall, whenever the Governor in Council, the Treasury Board or the minister directs, inquire into and report on any matter . . .

Now, I think the view was that that was broad enough to include crown corporations, that was my understanding of the interpretation. The point I raised was that there was nothing in there which enabled the Auditor General who, after all, is the guide, philosopher and friend of parliament, to go in under any other impulse than the pressure of the minister. I do not want to take time on that now, but I do not want to feel that I am precluded from bringing in any bright ideas that I may get on that.

The CHAIRMAN: You will have to get the bright ideas tonight.

Hon. Mr. ABBOTT: He means in the House.

The CHAIRMAN: I thought you meant here in the committee?

Mr. MACDONNELL: No, no, I am not going to keep you here.

Hon. Mr. ABBOTT: Mr. Macdonnell is entering what my late friend Ernie Bevan used to call a "caveat".

The CHAIRMAN: We now have the title of the bill, an Act to Provide for the Financial Administration of the Government of Canada, the Audit of the Public Accounts and the Financial Control of Corporations.

Shall the title carry?

Carried.

I took the liberty this afternoon or yesterday of telling Mr. Wright that he would be the first one to ask questions of the minister on certain matters of interest.

Mr. WRIGHT: Well, Mr. Chairman, you have passed the bill and the title and everything, so I do not see that there is much object.

Mr. SINCLAIR: I do not know as far as the discussion is concerned—

The CHAIRMAN: If after your comments there should be anything to change—

Hon. Mr. ABBOTT: The bill still has to go through the House in committee.

Mr. WRIGHT: I asked the committee why the Canadian Wheat Board Act is not included in one of the schedules to the bill?

Hon. Mr. ABBOTT: I understand that Dr. Clark, my deputy minister, gave some explanation as to that. The primary reason, of course, was that the Canadian Wheat Board is the agent of and acts for the wheat producers. It is governed by a special statute which outlines the basis on which it will operate and to whom it will report.

I think it was felt that to include it in this general Act which relates to corporations which are essentially government corporations, either agency or proprietary, would perhaps not be entirely appropriate.

I think that was the main reason, although I must confess, frankly, that I gave it no special personal consideration.

This bill, as the committee appreciates, is a very important measure but it is a very technical one. Its whole purpose is to assure that the public moneys are properly accounted for and that parliament is in a position to exercise its constitutional control over the expenditure of public moneys.

I understand that it was felt by those who spent a great deal of time in drafting the bill, that by reason of its character, the Canadian Wheat Board should not be subject to these general rules. It is quite open to parliament, if it feels that the operations of the Canadian Wheat Board should be subjected to some additional safeguards or some additional scrutinies, to amend the Canadian Wheat Board Act.

That is my understanding of the thinking behind it.

Mr. WRIGHT: I think, Mr. Minister, you have outlined practically what Mr. Clark stated the other day.

Hon. Mr. ABBOTT: Yes.

Mr. WRIGHT: And you have stated that you felt as the board were not handling government money but the money of the wheat producers or the grain producers, that they should have some responsibility with respect to their own moneys; but you also said that under the Act the board reports to the House.

Hon. Mr. ABBOTT: I understand that under the Act it reports through a minister, yes.

Mr. WRIGHT: It reports to parliament through a minister?

Hon. Mr. ABBOTT: Yes.

Mr. WRIGHT: Therefore, you, under the Act, assume responsibility for the funds of the producers?

Hon. Mr. ABBOTT: Well, not necessarily—I think there is a distinction.

Mr. WRIGHT: Well, now, Mr. Minister, you said that the annual statement must be submitted to parliament?

Hon. Mr. ABBOTT: That is true.

Mr. WRIGHT: It is turned over to the minister and within fifteen days he tables it in the House. Now, the only authority there is to examine that report is this House of Commons—unless you change your Wheat Board Act.

Hon. Mr. ABBOTT: That is my point.

Mr. WRIGHT: As long as we have that responsibility then I claim it should be in one of these schedules?

Hon. Mr. ABBOTT: Well, that is a matter of opinion, is it not? My view is this is a matter which should be raised in the House of Commons. Parliament is the body which has created the Canadian Wheat Board Act. The funds of the Canadian Wheat Board are not public moneys; they are moneys which belong to the wheat producers of Canada.

It is a creature of parliament, it is a board, and it reports to parliament. It is incumbent upon anyone who feels that the provisions of the Canadian Wheat Board Act are inadequate in either reporting or supervision to raise the question in parliament, in an endeavour to obtain an amendment to the Canadian Wheat Board Act. It does not fall within the category of corporations listed in the schedules here whose moneys are public moneys.

Mr. WRIGHT: The Wheat Board does on occasion spend public moneys, it distributes public moneys?

Mr. SINCLAIR: Only when it goes in the hole.

Hon. Mr. ABBOTT: Only when we vote \$65 million.

Mr. WRIGHT: There is an instance which might easily occur—where the market dropped below the initial payment, then it would be spending public money and certainly should be included in these schedules?

Hon. Mr. ABBOTT: Well, that again is a matter of opinion. I would think it is not desirable to include this special corporation in here.

Mr. WRIGHT: It is a matter of fact, not a matter of opinion at all. If the Wheat Board makes an initial payment and, in disposing of the crop they find they have a deficit—

Hon. Mr. ABBOTT: They would not be using public moneys, Mr. Wright—unless parliament saw fit to vote it. The Wheat Board would borrow the money from the banks, presumably, in order to make the payment. It might be that parliament would have to fill up the hole—but I would hope it would not. However, at that stage they would not have spent public moneys; they would have spent corporation moneys that had been borrowed from the banks. It is true the taxpayers of Canada might have to make it good, but not at that point.

Mr. WRIGHT: On whose guarantee?

Hon. Mr. ABBOTT: Well, I do not know.

Mr. WRIGHT: You should know.

Hon. Mr. ABBOTT: The usual I suppose—‘tous les jours—c’est le taxpayer qui paye’.

Mr. CROLL: Are they not borrowing some money for that purpose now?

Hon. Mr. ABBOTT: I cannot say. The Wheat Board makes its own arrangements with the banks, pays the rates of interest that the banks charge, and so on.

Mr. MACDONNELL: I think it is a matter of opinion after all—Mr. Wright has one opinion and the minister has another.

The CHAIRMAN: Mr. Wright felt the matter should be dealt with in the committee and before it went to the House. That is why we kept this open.

Hon. Mr. ABBOTT: I am not suggesting that it is not arguable that the Wheat Board should be in with these others but I am putting forward the view that in my opinion it should not.

Mr. SINCLAIR: What is the advantage you see, Mr. Wright, in having the Wheat Board included in the schedules?

Mr. WRIGHT: That its accounts will be checked as these accounts are by parliament.

Mr. SINCLAIR: The report is sent to parliament now.

Mr. WRIGHT: It is presented to parliament now but there has not been opportunity given to consider that report in a committee of the House—as promised by the minister in charge four years ago—by Mr. MacKinnon, when he was the minister.

Mr. SINCLAIR: But it does not necessarily follow that because it is in one of the schedules it is going to be referred to one of the committees of the House?

Mr. WRIGHT: Not necessarily, but it comes under your Act here then, and this Crown Corporations Act does give you closer check over Crown corporations than you ever had before—but it does not give you any check over the Wheat Board unless it is included in one of these schedules.

The CHAIRMAN: Are there any other proposals? Is there any motion? Or do you want to leave the matter stand?

Mr. WRIGHT: I would move that until there is some change in the Wheat Board Act which would provide for some closer supervision by the government over the funds that it should be included in one of the schedules to this Act—it should be included in C.

Mr. JUTRAS: Isn't Mr. Wright putting the cart before the horse? Did he not get started on this on the assumption that his other motion would have carried? That being the case then there would have been some point to what you have said, that this wheat board would automatically go in.

Mr. WRIGHT: I understand that this committee did consider the matter of making a recommendation. As a matter of fact, it had already made such a recommendation.

Mr. JUTRAS: Yes, and you had discussed the inclusion of the wheat board on the basis of it as it is now.

The CHAIRMAN: I do not know that there is anything wrong in that.

Mr. JUTRAS: Pardon me, Mr. Chairman, I haven't finished. I do not see that there is very much more that you gain.

Mr. WRIGHT: There is the gain that we would have them in that section of this Act dealing with crown corporations, if there was any advantage in that.

Mr. JUTRAS: Then what are you referring to now?

Mr. WRIGHT: I would say there was no objection to having the wheat board included, I think, but this section of this bill with regard to crown corporations does provide some check and I think that the wheat board should be included.

The CHAIRMAN: I think Mr. Wright's point is well taken, but whether it should be included or not is a matter of policy. That there would be an advantage to control in crown corporations—to have them in the Act—I would agree with him, but whether it is advisable in the case of the wheat board is another thing.

Mr. MACDONNELL: Might I ask whether the minister would say if he sees any objection to including that, to accepting Mr. Wright's motion?

Hon. Mr. ABBOTT: It does not fit in the pattern of these sections 80 and 81 which deal with the payment over of surplus amounts; for example subsection (2) of 81:

The Minister of Finance may, with the concurrence of the appropriate minister, direct a corporation to pay all or any part of the money of the corporation to the Receiver General to be placed to the credit of a special account in the consolidated revenue fund in the name of the corporation, and the Minister of Finance may pay out, for the purposes of the corporation, or repay to the corporation, all or any part of the money in the special account.

Then we can direct these crown corporations to pay over any money which we think is in excess of what they need, to pay it into the consolidated revenue fund. That does not fit into the picture of the Canadian Wheat Board whose assets are not public moneys at all.

Mr. WRIGHT: Well, if they build up too big a surplus you might decide to pay it back to us.

Hon. Mr. ABBOTT: We might decide to pay it back, yes.

Mr. WRIGHT: We will have to take a chance on that. Then there is this Price Support Board, the Agricultural Products Board which is being set up under the Agricultural Products Act. I suppose that would be included in one of these schedules when it passes, the Agricultural Products Board set-up.

Mr. MACDONNELL: Might I ask Mr. Wright if he does not think this case, of the wheat board, is somewhat in between; that it is susceptible of different treatment from what it is getting now; but, as the minister says, it does not seem to fit in with these other crown corporations.

Mr. WRIGHT: I would like to ask the minister if the wheat board has objected to being placed in this list?

Hon. Mr. ABBOTT: I do not think they were consulted or even gave any thought to the Act applying to them—did they, Mr. Bryce?—I do not think they were even considered as being a type of corporation which should be brought under it.

Mr. FRASER: But the question was, did they object; do you think they would have objected to being included?

Hon. Mr. ABBOTT: I do not think they would care—I don't know, I really don't know. But, frankly, it does not seem to me appropriate that this particular corporation, which is almost unique in Canada, should come under this general rule dealing with agencies of the crown who are performing functions of one sort or another for the government and which are handling public money. This is a special type of corporation formed for the purpose of marketing producers' wheat and its powers are covered by a special statute. It is required to report through the minister to parliament. There is every opportunity if parliament cares to insist that its affairs should be examined into most carefully by parliament. Really, I find it hard to see what particular advantage would be gained by including it in this schedule, even if it were desirable on other grounds to do so.

Mr. WRIGHT: I will tell you why it would be an advantage. I have always been strongly in favour of the wheat board, and it has done an excellent job, in my opinion, for the growers of western Canada; but I would like to see confidence built up in it. There are those who say: well, the wheat board's annual statement gets practically no consideration, it is tabled in the House; it is not examined; and they use that against the board. Now, I would like to see the board placed in a position where their yearly statements receive close consideration, where there is a chance to question the board, and where the board has a chance to justify the actions they have taken during the year; and I think that could be done by having them appear before a committee of the House each year.

Hon. Mr. ABBOTT: That is a matter for parliament; it is entirely free to do that.

Mr. WRIGHT: I think that if they were under this Crown Corporations Act that would be an additional safeguard for them.

Hon. Mr. ABBOTT: If they were included in this Act that would not insure that their report would be brought before the committee at all.

Mr. WRIGHT: Oh, I know, not at the present time; but, if we as a committee recommend that the crown corporations in schedules "C" and "D" submit their reports to the House and that they be referred by the House to a committee then the wheat board would, naturally, being one of these corporations, go before a committee of the House. I think it was the general opinion of this committee—if that opinion has not been changed since this afternoon—that a recommendation would go to the House similar to the one which was made last year. I may say that my only reason for asking that the wheat board be included is to protect the board itself against those who make certain statements about it.

Mr. JUTRAS: Well, Mr. Chairman, I must say that I cannot see how Mr. Wright's purpose would be served by putting the wheat board in with the crown corporations. There is nothing here which says that these crown corporations must go to a committee. That is a matter which must be left to the House, and should the House decide that a report should be considered by a committee then I would assume it would be referred to a committee. As the matter stands, I doubt very much the wisdom of including the wheat board in this part of the Act because actually during the last few years what we have been trying to do is to get the wheat board in the best possible

position. As a matter of fact, in the case of the wheat board they are not handling public funds and what we have been trying to do is to draw a line between those which use public money and those which are concerned with private funds, the money of the producers.

Mr. WRIGHT: They are concerned with the producer's money.

Mr. JUTRAS: What I mean is there are some bodies which go back to parliament every year, they have to come back to parliament every year to get authority from parliament to carry on, and to get funds for that purpose; and the reason they come back to parliament every year is because public money is concerned and funds have to be voted. I think to insist on having an organization like the wheat board forced to come to parliament every year would leave a wrong impression. I do not think it is desirable to place it with the other crown corporations because they are so far apart, and that is the reason why we have to look into them more closely.

Mr. SINCLAIR: What if we as a committee recommend—

The CHAIRMAN: As soon as we finish with this matter I think that would be in order; but, I think we should deal with the bill first, and that would not prevent us from making a second report in which we could repeat our recommendation made the year before, the session before. We did make a recommendation last session in which we said:

Most of the matters considered for recommendation by the committee and dealing especially with parliamentary control over Crown corporations and the regulating of special warrants as a source of authority for expenditures, are covered in bill 401, the Financial Administration Act, first reading of which was given on June 25, and your committee will therefore have further occasion to look into these matters when this bill is referred to the committee as has already been announced.

The year before the committee made a specific recommendation. So after we are through with this bill, it would be in order for Mr. Wright to bring up the matter. But as we are now, do you still persist in the idea of moving that the Wheat Board be included, Mr. Wright?

Mr. WRIGHT: There is not much object in my moving it because it would be defeated anyway.

The CHAIRMAN: I gave you the floor and you had three items this afternoon. Before I turn the witness over to Mr. Macdonnell, have you another question that you want to ask the minister?

Mr. WRIGHT: No, I do not think so.

The CHAIRMAN: Now, Mr. Macdonnell?

Mr. MACDONNELL: There are one or two matters I would like to speak about when the bill comes before the House and I would be glad to have the minister's comment, if he cares to make any at this time.

The first is the fact that a good many of the companies, I am quite sure, are incorporated under the Dominion Companies Act and as such have extraordinary wide powers under clause 14. Mr. Balls has been good enough to give me an order in council which sets out the relations with the Canadian Arsenals, one of those companies. The order in council sets out the limitation of those powers. I realize that the matter is highly technical but on the other hand it does seem a pity, unless there is some reason for it, and does seem to be an anomaly that these companies should be set up with powers, by virtue of section 14, many of which of course are utterly inapplicable to them, such as power to buy other companies, and power to sell property, and so on. So my question is really this: Was it merely a matter of convenience and to save trouble that that was done, or is there con-

sidered to be some substantial advantage in having it? On the face of it, at any rate, it does not seem to be very tidy to have a company incorporated with a whole lot of powers which are wholly improper for it to use.

Hon. Mr. ABBOTT: I do not know if I can answer your question very specifically. I have never had any personal responsibility for the incorporation of a crown company under the Dominion Companies Act which was used during the war. Perhaps it was done as a matter of convenience, I do not know. The only one I have ever had to administer is the Commodity Prices Stabilization Corporation which was a purely wartime corporation set up under the Dominion Companies Act.

It is true that a corporation created in that way has very wide powers. I think its powers go considerably beyond those which are set out in section 14. In the Bonanza Creek case letters patent companies are deemed to have, with certain limitations, the powers of a natural person and so on. But I think that is a legal theory we do not need to go into. I do not know how the practice arose, but it is a matter certainly of some importance and it has been raised in parliament and the question discussed there. I think it is a matter for parliament to decide and finally pass on. I suppose it is a question which I do not believe anyone would suggest should be dealt with in a bill of this kind, which is to provide for the check, direction and control of the financial operations of these crown corporations, and not the particular manner in which they are incorporated or the powers which they possess as corporations.

Mr. MACDONNELL: They take them as they are.

Hon. Mr. ABBOTT: Yes, they take them as they are and they manage their own business affairs and their moneys are correctly accounted for.

Mr. MACDONNELL: Another question is this: I have asked for a list of the directors of all the crown companies and I have got it. But it seems to me that beyond a certain point as to which are merely pure agencies doing ministerial jobs for a department, I think the directors of such companies are not exercising any discretion and will not be called on to do so, and it seems to me perfectly proper that the directors of such companies should be civil servants. But in other cases—and I need not say that this is not meant in disrespect to civil servants, at any rate any of the senior ones that one meets—I do question whether in the case of corporations where the directors have to make decisions comparable to what they do in non-government companies, that it is not desirable that those directors be civil servants, and for two reasons: first, either the people outside in ordinary business are utterly incompetent, or the fact that they are carrying on ordinary business ought to make them available to make some contribution to the affairs of crown companies. Secondly, I do not think it is fair, where decisions outside the scope of ordinary departmental decisions are to be made, to expect that civil servants are going to take a stand against their ministers. Unless they are supermen with independent incomes, how can they be expected to do it? The minister might not want to make any comment on that question at all, but I thought that as I intended to comment on it in the House I would like to raise it here in case it was a matter which interested other people too.

Hon. Mr. ABBOTT: I do not know whether I care to comment on it. It would be hard to say where the line should be drawn as between directors of a corporation which is entirely a public corporation, one whose moneys are entirely public moneys, as to what independent judgment and discretion they should exercise as directors, and the overruling powers the minister should

have, who after all is the one who is responsible to parliament for the administration of the affairs of the corporation. That is a very large question and as you know, Mr. Macdonnell, we have got a variety of these crown corporations. In the case of Central Housing and Mortgage Corporation there are some outside directors and some directors who are, as you know, civil servants. One director of Central Mortgage and Housing Corporation is really a representative of the Minister of Finance. Then, there is the Bank of Canada. I think its Board of Directors is entirely from outside. But the powers of the executive, such as the governor and so on are fixed by statute.

I think it is a subject which can quite properly be aired in parliament and as to which the views which any member may have should be expressed there, because that is the forum in which public matter of that kind is brought to the attention of parliament and to the country.

The CHAIRMAN: Have you any further questions you wish to ask the minister while we have him with us?

Mr. WRIGHT: Yes, I have one question I would like to ask. In schedule C there is mentioned the Canadian Sugar Stabilization Corporation. Now, if my memory serves me correctly, that organization was set up under the War Measures Act and by order in council. It was never an Act which was passed by parliament.

Hon. Mr. ABBOTT: I think it was incorporated under the Companies Act, Mr. Wright.

Mr. WRIGHT: Yes, but was it not incorporated through an order in council?

Hon. Mr. ABBOTT: No. Its incorporation may have been authorized by an order in council, but I think it was actually incorporated in the regular way under part I of the Dominion Companies Act.

Mr. WRIGHT: Could that procedure still be followed by the crown in setting up a corporation by an order in council through the Companies Act?

Hon. Mr. ABBOTT: Yes.

Mr. WRIGHT: Or was that done under the special powers under the War Measures Act?

Hon. Mr. ABBOTT: No. What is the situation?

Mr. BRYCE: I think that Mr. Balls can answer that.

Mr. BALLS: I think there are at least three statutory authorities at the present time which permit incorporation of crown companies under the Dominion Companies Act, 1934.

Mr. WRIGHT: By order in council?

Hon. Mr. ABBOTT: Not by order in council. They have to be by letters patent under the Companies Act.

Mr. FRASER: Defence Production?

Mr. BALLS: The Defence Production Act includes a clause authorizing the setting up of such companies, but there is also a similar provision in the Research Council Act, and similar authority is also given in the Atomic Energy Control Act.

Mr. GIBSON: Mr. Chairman, Mr. Clark suggested yesterday that we were probably investing some of our surplus funds from time to time in Canadian government victory bonds and he rather indicated we are buying them below par. It is a moral question whether that is correct or not, but I am no moralist and so I cannot argue on that. Of course, we found it expedient during the war to support the price of those bonds in order to sell the next issues as they came along. I have been wondering if the minister has directed his own initiative or that of his officials to the possibility that we might help out the

small investors who are suffering under present circumstances when they want to sell their bonds. After all, we sold those bonds during the war from a patriotic standpoint, and that was all very well. Now, is there any way that anyone can think of whereby we can protect the small investor? **I would** like to know, Mr. Chairman, if the Minister of Finance has done anything on that.

Hon. Mr. ABBOTT: Yes, I have had occasion to say in the House that the interest rate is a price just the same as anything else, and that in a security, whether it is a government security or anything else, you cannot have absolute security, absolute liquidity and a high interest rate all in the same instrument. We believe—at least you and I do—in a free enterprise economy. I believe in the law of supply and demand, with certain reservations. I do not believe there is any such thing as a fixed interest. I believe in the use of the interest rate and so far as the government securities are concerned I think that the holder of government securities must buy them on this basis. He buys them at a price which reflects at the time he purchases them the going interest rate. If he buys them at the time of issue he buys an obligation which guarantees him the return of his principal on the due date, and in the meantime the rate of interest which is stipulated in the contract. If for one reason or another interest rates go up, then the current value of his bond will go down, and if interest rates should go down, as they have done, then the market value of his bond will go up. In the case of the Dominion government bonds sold during the war, for four or five years after the war the issues all sold at a substantial premium. Now there has been a worldwide increase in interest rates and, inevitably, that means that the current market price of bonds is down. As to protecting the smaller holder: as the committee knows, the last three or four years there have been issued Canada savings bonds which bear quite an attractive rate of interest, but they are limited in two respects: they are limited as to the amount that can be purchased and they are, at any rate primarily, for the small holder. I am a firm believer in the use of the price mechanism and I do not think it is feasible to devise any means, to use your term, of protecting the small holder. It would be too easy for the large holders to convert themselves into small holders for the purpose of that transaction.

Mr. WRIGHT: Then why, Mr. Minister, did you change to the type of bonds you are selling now if you believe a complete free enterprise system operating in bonds was the one to follow?

Hon. Mr. ABBOTT: The reason for that is this, Mr. Wright: we are providing a security which carries a lower rate of interest than the long term government bonds, which are limited in the amount which anyone can hold and which is redeemable on demand but which cannot be sold, transferred nor assigned. It is a special type of security to enable people of small means to put their savings into a form of security which is very liquid and which pays a relatively high return. To adopt the suggestion that one should permanently peg the price of long term government bonds at any figure you like, would mean that you completely destroy any difference between short term and long term bonds, and that is something I do not think you are really going to have, a completely controlled economy where you just tell people what they are going to get and hold them to it, or you have a type of economy that a good many of us believe in.

Mr. GIBSON: You are not supporting the price now?

Hon. Mr. ABBOTT: No.

Mr. GIBSON: You are buying bonds, though?

Hon. Mr. ABBOTT: As we have funds to invest we will buy bonds.

Mr. GIBSON: You supported them during the war.

Hon. Mr. ABBOTT: I do not say that. The conditions were quite different during the war. There were very few other avenues for investment during the war. We were taxing very much more heavily than we are today and there were very few avenues within which current savings could be invested other than in government securities. All I think any government should ever attempt to do in the management of public debt is to see that there is an orderly and stable market for its securities, and the price that is paid for those should be determined, over the long pull, by the demand for them and by other matters of monetary policy in which, of course, no country can be entirely independent.

Mr. MACDONNELL: It is unfortunate, Mr. Minister, that some of your predecessors were not quite as careful in their choice of words as you are. I think it was your predecessor who, in 1945, said that we now had a mechanism where interest rates were going to be maintained. There was never a statement that bonds would not go below par. Mr. Ilsley never said that, but he and others came so close to saying it that I am sure the ordinary salesman did not have to go even a microscopic distance to say that government bonds will never go below par, and I am afraid that is what the salesmen did say.

Mr. WRIGHT: You made the statement, Mr. Minister, in the course of your remarks that to sell government securities you must maintain some stability in the market.

Hon. Mr. ABBOTT: No, I did not make that statement. I said the responsibility of the government is to maintain orderly and stable market conditions, and that has been done, Mr. Wright, and it is done today.

Mr. WRIGHT: It is done by the operation of certain controls by the government?

Hon. Mr. ABBOTT: It is not done by the operation of certain controls. The management of the public debt is a fairly continuous technical operation which requires the operation of good judgment on the part of central bankers and others.

Mr. WRIGHT: It requires controls, in other words?

Hon. Mr. ABBOTT: No, it does not require controls, it is the operation of the interest rate that does it, and it is the operation of the law of supply and demand today that tells you what you will get for your bonds. But if any large buyers come into the market for bonds in any large volume, the price of those bonds would go up just as it did after the war when victory bonds sold at a premium of 5 to 7 per cent. It was not government support that took them there.

Mr. WRIGHT: If they fluctuated too violently, this government would have to exercise certain controls?

Mr. MACDONNELL: Support.

Hon. Mr. ABBOTT: It all depends on what you mean by controls. Your idea of controls and mine differ, Mr. Wright.

Mr. WRIGHT: I do not think they are so different. What it comes to is that you can exercise the necessary controls, and that is all I infer by controls.

Hon. Mr. ABBOTT: I do not think there is much difference. My point is that I think it is completely impractical and, as a matter of fact, it is completely undesirable for any government to guarantee a 15 or 20 year bond and say that it will always be selling at a certain price.

Mr. WRIGHT: That is what you are doing now.

Mr. SINCLAIR: On a comment made by Mr. Macdonnell—as I remember, in 1945 a certain optimism was expressed, not by the Minister of Finance

at that time but by others in the government, but was that not in part done to offset the cries of blue ruin that the opposition were saying, that the country was going into the greatest depression, there would be thousands of unemployed—was it not, perhaps, the contrast that created that impression?

Mr. MACDONNELL: Is this a political meeting?

Mr. SINCLAIR: It may have prompted some optimistic phrases.

The CHAIRMAN: Mr. Fraser.

Mr. FRASER: I just wanted to say to Mr. Abbott that there is one thing that I think his department should not do, and that is issue small denomination bonds on call letters, because the public buy them and they are called in and the owners are disillusioned. They bought and were holding those bonds thinking they would run to 1961, and then you call them in and there are people who are trying to save and you stop their saving right there. They get their money back on redemption of the bonds and it is spent. I think those call bonds are not a right thing to issue.

The CHAIRMAN: Are the question over?

Hon. Mr. ABBOTT: I just wanted to say a word, Mr. Chairman, to express my appreciation of the time and attention that the committee has given to this measure. As they will have appreciated, the departmental officials have spent a tremendous amount of time drafting the bill. It probably will require some other improvements. From what Mr. Sinclair tells me the committee has spent a great deal of time going over the bill very carefully. I am very appreciative of the attention that has been given to it and I am sorry that I could not be here myself much of the time. However, I did feel that it was a bill in which the officials of the department could probably give better explanations than I could because a great many of the questions about it are essentially technical questions. It is not a bill in which there is any real controversy as to the object. The whole purpose is to get a measure which will bring up to date the law relating to the control of public moneys and the control by parliament. I think by and large—

Mr. MACDONNELL: I think we are all grateful for the minister coming and we all know why he has not been before. We are also deeply appreciative of the knowledge and experience of the civil servants who have come here.

Some Hon. MEMBERS: Hear, hear.

Mr. MACDONNELL: As for you, Mr. Chairman, you have absolutely exhausted us.

The CHAIRMAN: I have not anything to add to what Mr. Macdonnell has said. He expressed for us the thanks of the committee to the minister and to the Finance Department officials who have come here and have given of their time and given us all the explanation we wanted.

Now, the committee has approved the bill, shall I report the bill with amendments?

Agreed.

Before you go, gentlemen, I would like to have our report approved so that now we will sit for a few minutes longer in camera, but before doing so I believe that Mr. Wright intimated earlier in the proceedings that he wished to move that we make a recommendation to the House. Are you prepared to do that now, Mr. Wright?

Mr. WRIGHT: Yes. I would move that we make a separate report to the House recommending that the annual report of every Crown Corporation should be referred for study to a select committee of the House.

Mr. SINCLAIR: I would move an amendment to that, and add that your Committee recommends that the annual reports of all Crown Corporations be published together in one section of the Public Accounts.

The CHAIRMAN: You have heard the motion and the amendment, Gentlemen. Shall the amendment carry?

Agreed.

The CHAIRMAN: Shall the motion, as amended, carry?

Agreed.

The CHAIRMAN: Before we sit in camera to consider the two reports we are to make, I wish to thank everyone—including the clerk of the committee—for his devotion, and the reporters for their splendid work, and I am sure that in doing that I am expressing the appreciation of all the members of the committee. I also wish to thank the members for their courtesy and co-operation during our arduous meetings—it made the task of being Chairman much easier. Now, Gentlemen, shall we consider our reports?

Agreed.

HOUSE OF COMMONS

Government
Publications

Sixth Session—Twenty-first Parliament, 1952

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

CHAIRMAN—MR. L. PHILIPPE PICARD

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

TUESDAY, MAY 6, 1952

TUESDAY, MAY 20, 1952

WITNESSES:

Mr. Watson Sellar, Auditor General.

Mr. R. B. Bryce, Assistant Deputy Minister of Finance.

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. L. Philippe Picard

Vice-Chairman: Mr. W. Benidickson

and Messrs.

Anderson	Fournier (<i>Maison-</i>	Maltais
Ashbourne	<i>neuve-Rosemont</i>) Major	
Balcer	Fraser	McCusker
Beaudry	Fulford	Nowlan
Beyerstein	Fulton	Pearkes
Blue	Gibson	Pinard
Boisvert	Green	Richard (<i>Ottawa East</i>)
Boivin	Harkness	Riley
Brisson	Helme	Robinson
Browne (<i>St. John's</i>	Johnston	Shaw
	West) Jutras	Sinclair
Cauchon	Kirk (<i>Antigonish-</i>	Sinnott
Cavers	<i>Guysborough</i>)	
Churchill	Kirk (<i>Digby-Yarmouth</i>)	Stewart (<i>Winnipeg</i>
Cleaver	Larson	<i>North</i>)
Cloutier	Macdonald (<i>Edmon-</i>	Thatcher
Croll	<i>ton East</i>) Wright	
Denis	Macdonnell	
Fleming		

50 members—Quorum 15

ANTOINE CHASSE,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,
TUESDAY, March 18, 1952.

Resolved,—That the following Members do compose the Standing Committee on Public Accounts:—

Messrs:

Anderson	Fournier (<i>Maisonneuve-Rosemont</i>)	Macdonnell (<i>Greenwood</i>)
Ashbourne	Fraser	Maltais
Balcer	Fulford	Major
Beaudry	Fulton	McCusker
Benidickson	Gauthier (<i>Portneuf</i>)	Nowlan
Beyerstein	Gibson	Pearkes
Blue	Green	Picard
Boisvert	Harkness	Pinard
Boivin	Helme	Richard (<i>Ottawa East</i>)
Browne (<i>St. John's West</i>)	Johnston	Riley
Cauchon	Jutras	Robinson
Cavers	Kirk (<i>Antigonish-Guysborough</i>)	Shaw
Churchill	Kirk (<i>Digby-Yarmouth</i>)	Sinclair
Cleaver	Larson	Sinnott
Cloutier	Macdonald (<i>Edmonton East</i>)	Stewart (<i>Winnipeg North</i>)
Croll		Thatcher
Denis		Wright—50.
Fleming		

(Quorum—15)

Ordered,—That the Standing Committee on Public Accounts be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

WEDNESDAY, April 23, 1952.

Ordered,—That the Public Accounts and the Report of the Auditor General of Canada for the fiscal year ended March 31, 1951, tabled in the House on October 31, 1951, be referred to the said Committee.

Ordered,—That the name of Mr. Brisson be substituted for that of Mr. Gauthier (*Portneuf*) on the said Committee.

TUESDAY, May 6, 1952.

Ordered,—That the said Committee be authorized to print from day to day 800 copies in English and 200 copies in French of its proceedings and the evidence and that Standing Order 64 be suspended in relation thereto.

Ordered,—That the said Committee be granted leave to sit while the House is sitting.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

TUESDAY, May 6, 1952.

The Standing Committee on Public Accounts begs leave to present the following as a

FIRST REPORT

Your Committee recommends

1. That it be authorized to print from day to day 800 copies in English and 200 copies in French of its proceedings and the evidence and that standing order 64 be suspended in relation thereto.

2. That it be granted leave to sit while the House is sitting.

All of which is respectfully submitted.

L. PHILIPPE PICARD,
Chairman.

(NOTE: The said report was concurred in by the House the same day.)

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, Room 430,
TUESDAY, May 6, 1952.

The Standing Committee on Public Accounts met at 10.30 o'clock a.m. The chairman, Mr. L. Philippe Picard, presided.

Members present: Messrs. Ashbourne, Benidickson, Beyerstein, Boisvert, Boivin, Cavers, Croll, Fleming, Fraser, Fulton, Harkness, Helme, Macdonald (*Edmonton East*), Nowlan, Picard, Richard (*Ottawa East*), Riley.

The chairman thanked the committee for their renewed confidence in electing him to the chair again this year.

The order of reference of Tuesday, March 18, 1952, was read.

On motion of Mr. Boisvert,

Resolved: That Mr. Benidickson be elected vice-chairman.

On motion of Mr. Ashbourne,

Resolved: That the committee ask leave to print from day to day 800 copies in English and 200 copies in French of its proceedings and the evidence.

Mr. Boivin moved that the committee ask leave to sit while the House is sitting.

After some discussion thereon, Mr. Boivin, by leave of the committee, withdrew his motion.

On motion of Mr. Cavers,

Resolved: That the committee ask leave to sit while the House is sitting.

On motion of Mr. Croll,

Resolved: That the chairman and vice-chairman with eight members selected by the former constitute a steering or program sub-committee.

The committee discussed future meetings.

At 10.55 o'clock a.m., the committee adjourned to the call of the chair.

TUESDAY, May 20, 1952.

The committee met at 4.00 o'clock, p.m. The chairman, Mr. L. Philippe Picard, presided.

Members present: Messrs. Anderson, Ashbourne, Beyerstein, Blue, Boivin, Browne (*St. John's West*), Cauchon, Cavers, Croll, Fleming, Fraser, Fulford, Gibson, Johnston, Jutras, Kirk (*Digby-Yarmouth*), Macdonald (*Edmonton East*), Major, McCusker, Pearkes, Picard, Sinnott, Thatcher.

In attendance: Mr. Watson Sellar, Auditor General for Canada; Mr. R. B. Bryce, Assistant Deputy Minister of Finance.

The committee proceeded with the study of the Auditor General's report for the year ended March 31, 1951.

Mr. Watson was called. The witness was questioned at length on the aforesaid report.

Mr. Bryce was also called. He was questioned on certain specific matters arising out of Mr. Sellar's examination.

And the examination of Mr. Sellar still continuing, the said examination was adjourned until the next meeting.

At 5.45 o'clock, p.m., the Committee adjourned to meet again at 4.00 o'clock, p.m., on Thursday, May 22nd, 1952.

ANTOINE CHASSE,
Clerk of the Committee.

VERBATIM REPORT OF ORGANIZATION MEETING

MAY 6, 1952.

10.30 a.m.

The CHAIRMAN: Gentlemen, we will open the meeting and I thank you for assembling so promptly and also for expressing your confidence in me as chairman for the coming meetings.

This is just a short organizational meeting in order that we may decide how we shall proceed with our work.

I will point out that both the Auditor General's report and the public accounts for the fiscal year ended March 31, 1951, were tabled last year at the fall session and since we devoted all our meetings during that session to the financial administration bill we did not reach this part of our work, that is the consideration of the Public Accounts, before the session was over.

When a member first asked me for the committee to sit this year, I asked the Minister of Finance to refer again to this committee the public accounts tabled last year and he explained to me that in his department things work by a system and that officials having tabled the report at the last session did not think it would have to be referred to the committee again this year which accounted for their not having been referred anew; however he immediately proceeded to refer them to us. At the moment, however, it is referred to us and we have to decide how we shall go on with our work. I know that many committees are sitting and important work is being done in those committees. I am, therefore, in your hands with respect to the matter of deciding what you want to do in this committee.

Now, we have before us the order of reference. It reads:

That the Standing Committee on Public Accounts be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

On Wednesday, April 23, the public accounts were referred to us together with the report of the Auditor General for the fiscal year ending March 31, 1951—tabled in the House on October 31, 1951. The reference reads as follows:

That the public accounts and the report of the Auditor General of Canada for the fiscal year ended March 31, 1951, tabled in the House on October 31, 1951, be referred to the said committee.

Are there any observations on those points in our proceedings?

Mr. FLEMING: Well, Mr. Chairman, I suggest that in keeping with the practice of this committee in recent years we should begin with a review of the report of the Auditor General as such, asking him to attend meetings for that purpose. It is a little hard to say how long that may take but I suggest that should be the first business to which the committee should address itself. While that work is proceeding, and depending upon the rate of progress, we can see how much further we will be able to go into other matters relating to the public accounts of any one or more departments.

The CHAIRMAN: Are there any further observations?

Mr. RILEY: I would think we should forgo any further meetings of this committee until other committees quiet down a bit. A lot of us are sitting on different committees at the present time and it is pretty nearly impossible—

in fact it will be impossible—to attend them all. External Affairs, Agriculture, Defence Expenditure, and Banking and Commerce are sitting, so if we had a postponement of further meetings of this committee I think everybody would be pretty well agreeable.

Mr. FLEMING: How long do you suggest?

Mr. RILEY: A couple of weeks.

The CHAIRMAN: I had hoped that suggestion might come from the opposition and not from the government side—the suggestion that we have too much work.

Mr. FLEMING: Well, we are all of one mind and we are all labouring under quite a burden of committee work right now. It seems to me that members of this committee, a great many of them, are sitting on the Defence Expenditures Committee which is having a lot of meetings. If we followed Mr. Riley's suggestion and started the meetings of this committee in about a fortnight or thereabouts, other committee work might have eased up sufficiently for us to carry on with reasonable regularity here.

Mr. HARKNESS: I would think that in two weeks the Agriculture Committee would have finished its sittings and also possibly External Affairs. Then it should be possible, I think, to stagger the meetings of this committee with those of the Defence Expenditures Committee—because those two committees have a big overlapping of membership.

The CHAIRMAN: There is just a point of principle. It is that this is a Standing Committee and, seven or eight years ago, we established the principle that it should sit each year even if only for a few meetings. When the request came first from a member that this committee should sit that is why insistence was made on having the matter referred to us anew.

We all know that members are busy with committee meetings this year and it may be agreeable to members that we should adjourn for a certain period of time. That would be quite all right and then we will try to arrange matters then. I am quite sure that the Defence Expenditures Committee will be sitting until the last day of the session and I am also sure that Agriculture will be sitting for some time.

At this time, if you wish, we shall proceed with the regular motions at our organizational meeting. The first matter is the election of a vice-chairman.

Mr. BOISVERT: I move that Mr. David Croll be our vice-chairman.

Mr. CROLL: May I thank you very much but suggest, in view of some of the other work at the present time that I and others have to do, that Mr. Benidickson should be nominated. He is prepared to take it on and he knows the work of this committee very well. However, I thank you very much.

The CHAIRMAN: Then the motion as it stands reads that instead of Mr. Croll, Mr. Benidickson be our vice-chairman. Is that agreeable?

Agreed.

Mr. ASHBOURNE: I move that permission be sought to print, from day to day, 800 copies in English and 200 copies in French of the Proceedings and Evidence.

Mr. FLEMING: Is that the same as last year?

The CHAIRMAN: Mr. Ashbourne moves that permission be sought to print from day to day 800 copies in English and 200 copies in French of our Proceedings and Evidence.

Mr. FLEMING: How does that compare with last year—the English looks a little high.

The CHAIRMAN: The interest may be a little less now but a few years ago members asked that, since there was great interest in our proceedings, we

should have the number fixed at 800. The secretary tells me that last year the full number of 800 copies was used—of course, we were then dealing with the Financial Administration Act.

Mr. FLEMING: It is a popular committee.

Mr. ASHBOURNE: I think there are other committees which print a larger number than even 800.

The CHAIRMAN: Then, it will be in order, so that we may sit in the afternoons or at other times to have a motion to sit while the House is sitting.

Mr. BOIVIN: I move that a recommendation be made to the House to reduce the quorum from 15 to 10 members.

The CHAIRMAN: I am very sorry, but as chairman I oppose that. I think we should have our present quorum. This is an important committee and I do not think the party who has a majority should try to reduce it. I am sorry but I might have organized the procedure this morning somewhat better before the meeting but I personally am opposed to reducing the quorum of this committee because of the importance of the control of finances.

Mr. FULFORD: It seems to me that 15 is a small enough quorum for this committee.

Mr. CAVERS: I would move that permission be sought for this committee to sit while the House is sitting.

The CHAIRMAN: Mr. Cavers moves that the committee be empowered to sit while the House is sitting.

Agreed.

Mr. BOIVIN: Then I would ask permission of the committee to withdraw my motion.

The CHAIRMAN: Thank you very much.

I do not want to hurt anybody but the attitude was taken a few years ago. It is customary in all committees to have a motion to reduce the quorum but we have had a long discussion about it in our committee and have come to the conclusion that since the government, evidently due to the will of the people at the last election, has a very large number of people on this committee, it might not be fair to the opposition to reduce the quorum to ten—which would mean ten members of the government could carry on. It was unanimously agreed at that time that we would not reduce the quorum, in order to give the opposition a fair opportunity to offer criticism of whatever may come before the committee.

Mr. FLEMING: There is another angle to that too. I believe there are at least 10 opposition members on this committee, are there not?

The CHAIRMAN: If you would move that we accept the motion I am quite willing—since it might be 10 to 40—and if one gets lame by any chance you will lose that one.

Mr. CROLL: I move that a subcommittee on agenda and procedure be appointed comprising the chairman, the vice-chairman and 8 members to be named by him.

The CHAIRMAN: Mr. Croll moves that a committee of 8 members be appointed as a steering committee.

Mr. FLEMING: Was that last year's number?

Mr. CROLL: Yes.

The CHAIRMAN: Then what I will do is this. If it is agreeable to you rather, than fixing a definite date at the moment I will get in touch with the representatives of each party to make sure when they are agreeable to have the next meeting. Then we can decide when the next meeting takes place and try to arrange that meetings of this Committee conflict as little as possible with those of important committees sitting at that time.

If it is agreeable to members I will now adjourn the meeting to meet again at the call of the chair.

The committee adjourned.

EVIDENCE

MAY 20, 1952.

4:00 p.m.

The CHAIRMAN: Gentlemen, we now have a quorum. At the last meeting it had been suggested that we would adjourn until this day of this week and that it might be appropriate as the first order of business to go into the report of the Auditor General.

We have with us today as our first witness Mr. Watson Sellar, Auditor General of Canada, and I think if we follow the method of last year it might be in order to ask questions on the report itself and if members feel that they at any time wish to go into another part of the public accounts it would be in order to make a motion to do so after we are through with the Auditor General's report.

If we are in agreement and are to proceed as we did last year, I will give the items by the page of the report until we get to the titles that cover a number of items under the same headings and questioning can proceed accordingly. Are there any questions on page 2?

Mr. FLEMING: I thought you were going to call it by paragraphs.

The CHAIRMAN: Paragraph 1:

Mr. Watson Sellar, Auditor General of Canada, called:

Mr. FLEMING: Has Mr. Sellar any opening statement to make?

The CHAIRMAN: No, I suggested to Mr. Sellar that he would come here as a witness and that you would ask questions and he would answer them.

By Mr. Fleming:

Q. Well, No. 1 is this, is this list of Crown corporations the same as previous years, Mr. Sellar? No change as compared to previous years?—A. There is no change. Since this list was prepared one has been added.

Q. What is that?—A. Farm Loan Board. I received notice this morning.

By Mr. Fraser:

Q. What about Park Steamships?—A. Park Steamship Company is practically out of business.

By Mr. Jutras:

Q. What did you say about the Farm Loan Board?—A. It is being added to my list next year.

The CHAIRMAN: For audit purposes.

By Mr. Fleming:

Q. Well, the Sugar Stabilization Corporation is out?—A. Yes.

Q. Commodity Prices Stabilization Corporation—A. That is out of business.

Q. Crown Assets Disposal Corporation?—A. That is active.

Q. But on a smaller scale?—A. Yes.

The CHAIRMAN: Item 2, any questions?

Item 3?

By Mr. Fleming:

Q. A question on No. 3, Mr. Chairman. It has to do with the extent to which Mr. Sellar's services and those of his department are made available to the United Nations. How does this work out in practice? Is it creating unreasonable burdens for yourself and your staff, Mr. Sellar?—A. No, the staff enjoy the experience. It is good experience, takes the boys out of the rut, gives them a chance to see how things are done elsewhere. The work can be done in our slack time. It does not interfere with the audit of the accounts of Canada.

Q. What is the slack time? I did not know you had one.—A. Oh, yes, we always have a slack time after we finish audits in the fall. In November we always have a slack time and then, before we close at the end of the fiscal year there is a slack period. For instance, the Income Tax people do not want us around during the month of March. They are busy enough taking in money and do not want anyone bothering them in the month of March, so in the fall and in the month of March there is a slack period.

Q. We have no doubt you are rendering a very useful service to the United Nations down there by what you and your staff are doing. Just what does it represent in terms of time to the men in the department and yourself?—A. We send down five men in the fall for four weeks and we send four men down in March for five weeks and then I spent twenty-seven days in New York this spring. In July I have to be before a committee for two days and in the fall I have to appear before the General Assembly in connection with the United Nations accounts, the Children's Emergency Fund account, the Palestine Relief account and the Korean Relief account. Those are spread out a little on the agenda so I am down there for about thirty days in the fall. At the same time, they are sending stuff from Ottawa to me in New York to attend to.

By Mr. Croll:

Q. Mr. Sellar, the United Nations reimburse the government of Canada for the time that you devote to the United Nations and the time devoted in all by your staff?—A. Actually, Mr. Croll, we are making a little money on the proposition. We would be paying our staff anyway so we get their salaries back, but it so happens that Mr. John Bracken was the spokesman for the government of Canada in 1946 when I was appointed and, as there was discussion as to the qualifications of the auditors he said that Canada would send down their Auditor General and would not charge for his salary. I am very sorry he put in that phrase when he was down there, but they pay my expenses.

By Mr. Fleming:

Q. Well, you are satisfied that it does not interfere with your duties here, Mr. Sellar?—A. No, it does not interfere with our duties. I think there is a limit to what we should be asked to perform but we are the nearest and they rely on us.

By Mr. Fraser:

Q. Well, it would give you a better insight into what they are doing down there?—A. Oh, yes, we know the insides of that place very well and I think they are appreciative of the interest Canada takes in it.

By Mr. Fleming:

Q. They should be, and the time that you are personally giving to it as you have indicated here.—A. That does not seem to be avoidable, but I have it so arranged that the stuff I have to attend to in my office is shot down to me there and I am able to look after the office work as well as theirs. The only difference is this, Mr. Fleming, I get no summer holidays.

By Mr. Fraser:

Q. Well, that is not fair.—A. I know, but you cannot avoid it.

Q. Do you get any holidays?—A. Well, when I am down there a change is as good as a rest.

By Mr. Croll:

Q. Absence from Ottawa is a holiday in itself?—A. Some will say that a civil servant does not work hard enough to necessitate getting holidays.

Mr. FULFORD: It depends on the civil servant.

The CHAIRMAN: No. 3?

By Mr. Johnston:

Q. Have you any check on the Army Benevolent Fund as it comes within your jurisdiction, to see that they are properly disbursed?—A. Oh, yes, we have a very direct responsibility with respect to the Army Benevolent Fund. The other two, the R.C.A.F. and the navy, are private corporations. We have the usual powers of an auditor under the Companies Act.

Q. What do you mean by that, as far as the disbursement of the funds are concerned? If they make a donation which is not a proper one, do you have any check on that?—A. We would report it in their report.

Q. Do you run across any cases like that?—A. No, they are handled very well with the directors taking a very intimate interest in all the transactions. In the case of the R.C.A.F. Benevolent Fund, one of the most active members on it is my good friend Henry Norman, the senior partner of Price, Waterhouse and Company, and you can depend on him looking after things, and the same is true of all the other directors.

Q. How are those funds created?—A. Private donations plus the money that they got from the NAAFI which is the canteen moneys and prize money that they got last year.

Q. Has there been any of the prize money come in?—A. It just came in last year. Parliament allocated it last year. I am now talking about eighteen months ago.

Q. What was the amount of that, do you recall?—A. I have not the figure in my head, sir. I can get it for you.

Q. I think it was a fairly large amount.—A. Yes, it was a good substantial sum. The navy got the most of it, of course.

The CHAIRMAN: Any further questions on No. 3? Item 4?

By Mr. Browne:

Q. On No. 4, Mr. Chairman, I was wondering how comprehensive these tests are. Take, for example, the unemployment insurance. Is there someone who makes individual audits of the individual accounts and is that person under the Auditor General?—A. That work is done by the departmental staff, the unemployment internal audit people. We make tests to establish the efficiency of that section.

Q. You might miss a case, for instance, where a man was being paid unemployment insurance twice, as was the case in one example I heard of. That might never come to your notice?—A. It might not if we did not pick it up in our test.

Q. How would you find it out—pick out so many in (a) and so many in (b)?—A. We never do the same thing twice or they would be ready for us.

Q. Most people do not know the method you are going to adopt?—A. We keep changing our program about. We try to cover all the accounts in a certain period of years. One year we might check them alphabetically; another time

we might take certain months. Another time we might split that and make a combination, but we try to make a comprehensive test. We rely a great deal on perusing the reports of their examiners for weaknesses. We have men stationed in Montreal, we have men stationed in Toronto, we make inspections of the Winnipeg accounts, we make an inspection of the Vancouver accounts and we have a man in the maritimes who goes to Sydney.

Q. Do you go to Newfoundland?—A. We just stationed him there last year and he is going to Newfoundland in due course. He has not gone yet.

Q. There has not been any representative from your department gone to Newfoundland?—A. No, I have discouraged them from going into Newfoundland because there have been too many civil servants going there and I thought I would wait until there was a little relief.

Q. No auditing tests on departmental accounts in Newfoundland is done by him?—A. The Post Office naturally have an inspection by their own inspection service and we rely on that. The Customs and Excise have their own travelling inspectors and they are checked. Those are the two biggest. Pardon me, I am wrong when I said I had not a man there. I had men at Gander within the last three months, and those two men are going back again. They may be there now. They are going down for the inspection of the revenues of Gander airport.

Q. Will you also be able to continue that indefinitely, having some representative go down there?—A. It all depends on the volume I have, sir. If there is enough volume and if there is any doubt in my mind I will send a man quickly but to date we have had no necessity and we are just gradually taking that up.

Q. What staff have you in the maritime provinces, Prince Edward Island, Nova Scotia and New Brunswick?—A. We use two men regularly and we send down men for the inspection of the Income Tax and Post Office departments.

Q. Do those two men work on any particular itinerary or go where they please?—A. No, they are all instructed.

Q. By you?—A. By us, so that there is no time wasted in travel. If there are three accounts in an area, they take all three accounts at once although they may be entirely different departments.

Q. What do you mean by three accounts?—A. Let us say there is an experimental farm, a marine agency and the post office.

Q. What about the Halifax Harbour Board?—A. That is their key account. They are located in Halifax. Halifax and Saint John harbours are their two key accounts. If there are three accounts, say, at Moncton, where there is also the Unemployment Insurance office, they would take all those accounts when they are in there. We do not try to make a 100 per cent audit. It would cost the country far too much money and would not be worth it. The taxpayer has some rights.

Q. Well, internally in the department there must be somebody acting as auditor?—A. Yes, sir.

Q. You do not call them auditors?—A. They may be treasury officers.

By Mr. Fleming:

Q. And those men are checked on the basis of test?—A. Yes.

Q. Could you say in a word how extensive the tests are and how they compare with those conducted by a private firm of auditors of a corporation?—A. It will be a little more extensive in some regards because of the great interest in this country in expenditures. We follow right behind in all expenditure payments. Take National Defence. Our lag will never be more than 30 days behind the expenditures of national defence throughout the twelve months of the year.

Q. How extensive is the audit—or what is the extent of the test?—A. It varies with the class of account. If the accounts are routine salary accounts,

for example, you do not need to make a very exhaustive test. On travelling expenses, however, you may have to make a 70 or 80 per cent examination if you see any carelessness in checking accounts. That is the sort of thing where every man has his own idea on travelling expenses and what the sum involved is.

On other accounts a 10 per cent check would be adequate.

Q. What about contracts entered into by a department like Defence Production, for instance, where the contracts are on a cost plus basis?—A. That is audited first by the treasury cost accounting section. We get their reports. We, of course, examine all large payments. Every large payment of over \$100,000 is examined. If the treasury cost audit indicates anything we are doubtful about we may send one of our field men in there to look at it.

Q. Do you have occasion to do that very often?—A. Fortunately, no.

Q. Do you ever have occasion?—A. Oh, yes, particularly in war years.

Q. I was thinking about the latter years?—A. We send men into Canadair, for example, and the A. V. Roe Company in Toronto, where there are very large contracts and where we take practically all of the production. We go in there periodically to survey the system rather than the accounts themselves. We survey the system of accounting and internal check—whether the treasury officer is performing effectively and everything else like that. We go into accounts like that rather frequently.

Q. But on individual expenditures, for instance in those firms you mentioned where very substantial amounts of public money are being spent, your actual check on expenditure—of individual expenditure—is a small percentage check?—A. No, you see they are paid once a month and that payment is examined here in Ottawa. All large payments are looked at. The small ones—no—we cannot begin to cover them.

Q. Could you say in general in cases of this kind what proportion of the total would be represented by payments under \$100,000 and what proportion goes over the \$100,000?—A. I would be guessing, Mr. Fleming, and I might mislead you. I would rather try to establish a figure than to bluff you.

Q. You would not do that.—A. You might take my word for it and I do not know my facts.

The CHAIRMAN: Are there any further questions on number 5?

Item No. 6, statutory directions relating to the Auditor General's report?

By Mr. Fraser:

Q. On item 6, have there been any grants exceeded?—A. No.

Q. Well going right down the list, has there been any exception on any of these—(a), (b), (c), (d), (e), (f)?—A. On (f) there has been none. There have been no warrants. (b), (c) and (d) sort of overlap and therefore anything which we think is a little odd or unusual is put in the report now before you in various places.

Q. They are in the report?—A. Yes, and as far as the remissions are concerned they are in the back.

Mr. GIBSON: We can take it from what you say that for grants made by parliament to the Defence Department, for instance, where they tell us this year they were only out 1 per cent in their estimates of expenditure, there is no possibility that they could have used money which we voted for one purpose for any other purpose? Are you satisfied of that?

The CHAIRMAN: That is not a "grant" as is understood by this.

The WITNESS: When you say 1 per cent and you use "year" you may be referring to last March 31st.

Mr. GIBSON: Yes.

The WITNESS: Of course, this is the previous year. Our complaint, and you notice that in here is that National Defence did not pay all the bills that were ready for payment. There was a little drag there.

Mr. GIBSON: You are quite satisfied that money provided by parliament for a specific purpose was used for that purpose and not for another purpose?

The WITNESS: In National Defence it was almost impossible to have any trouble in that regard because it was a single lump vote for the whole of National Defence. It was not split up into a series of votes; they got that one great big vote and it was internally controlled.

You have a good government accounting system. It is a good system and you have no worry there.

Mr. CROLL: Well, what are we to worry about. If we are not to worry about the government accounting system what are we to worry about?

Mr. FLEMING: The government.

Mr. CROLL: That is your worry.

Mr. FLEMING: On the point Mr. Gibson has mentioned, we have in mind that the details in the estimates are not statutory and it is quite legal to shift expenditures around within the vote as long as they are not shifted from one item of the appropriation bill to another.

Mr. FRASER: In other words they can use for the navy funds which they first thought would be used for the army.

Mr. CROLL: No.

Mr. FRASER: Because it is all in a lump sum.

The CHAIRMAN: If it is in a lump sum you can switch from one part to another within the vote.

Mr. FLEMING: Yes. The details at the back of the book of estimates are not statutory.

The CHAIRMAN: Now, summary of the year's financial operations—items 7 to 13 inclusive.

Are there any questions on item No. 7?

By Mr. Browne:

Q. On item 7, that \$211 million of recorded surplus which the net debt is diminished by—is that done automatically?—A. Yes, sir. You take your total funded debt which was \$16,900,000,000 and subtract from that your active assets which were \$5,500,000,000 and that left you \$11,433,000,000 in figures. Then, you just compare that with the like figure for the year before and you have the reduction.

Q. Yes, but how do you actually pay that off? You do not pay off anything at the 1st of April do you?—A. No, you are thinking of the English scheme.

Q. Yes?—A. No, Canada has not got that English scheme.

By Mr. Fleming:

Q. Would you clear up one point for me? You started off by saying that you began with the gross net debt but is it confined to the funded debt, when you are ascertaining this figure of net debt? I did not think the funded debt was the gross debt—that is only part of it?—A. My expression was not apt. It is the total liability.

Q. Yes, of which the funded debt is only part?—A. Yes, it happens that the balance sheet uses the words "funded debt" at the bottom and that is where I slipped.

Mr. BROWNE: It is total liability?

The WITNESS: Yes.

Mr. BROWNE: When you speak of net debt do you mean the surplus of assets over liabilities?

The WITNESS: The other way, unfortunately. It is liabilities over assets.

The CHAIRMAN: Item 8? Item 9—post office revenue.

Mr. FRASER: This was before the one delivery a day started?

The WITNESS: I am not sure, I do not know when it started.

Mr. BROWNE: The accounts for 1950-51 are very different.

The CHAIRMAN: We cannot hear you, Mr. Fraser?

Mr. FRASER: I said that the figures here are for a time before the one delivery a day was inaugurated by the Post Office Department; and I am wondering if the revenue shows an increase or a decrease?

The CHAIRMAN: This covers the period until March 31, 1951. The one postal delivery a day was not started at that time.

Mr. FRASER: That is right, if it had not been started at that date this would not show it.

The CHAIRMAN: No.

Item 10, "Return from Investments".

Mr. BROWNE: Is that not given somewhere, item No. 10?

The WITNESS: In the following paragraphs I break them down. They are also given in the public accounts.

Mr. BROWNE: I see.

By Mr. Fleming:

Q. On item 10, Mr. Chairman, on Bank of Canada—we have not got a report of the Bank of Canada here—that big figure of \$34,700,000 is the total of the Bank of Canada and Exchange Fund account. That includes, I understand, profits on the operations of the bank for the full year plus the payment of dividend on the stock which the government holds in the bank, and it also includes the full profit made by the exchange fund, is that correct?—A. In round figures, it is \$19 million, bank, and \$14 million, fund. That is in very round figures.

Q. It is to be expected that with the abolition of the Foreign Exchange Control Board and the fund there will be a consequent loss of revenue?—A. Well, there would not be much revenue with things as they are now.

Q. There would not have been?—A. There won't be today.

Mr. FULFORD: There won't be any from now on.

The WITNESS: Oh, yes, they have investments.

By Mr. Fleming:

Q. Would you enlarge on your answer?—A. The exchange fund is held in gold and treasury notes and certificates of indebtedness of the United States government and a few other things like that which are interest-producing. Gold, of course, is not.

Q. That is just one fund or pocket within the Consolidated Revenue Fund is it not?—A. Yes.

Q. Will the abolition of the Foreign Exchange Control Board affect it?—A. The account still stands, the account is still there.

Q. It stands as an account within the Consolidated Revenue Fund now?—A. Yes. Previously they paid $\frac{3}{4}$ of 1 per cent interest to the government on the advances and that was discontinued, there is no revenue coming now from that source.

Q. Well, you look perhaps for some diminution in revenue, but still that fund should earn revenue?—A. Yes, not a big revenue but it will earn a revenue.

Q. Was there any effect on revenue in that account within the past year as a result of the tendency to increase the holdings of gold and decrease the holdings of United States dollars?—A. You would have to ask someone from the Finance Department that question.

Q. Would you care to comment on this question, whether the enhancement of the value of the Canadian dollar with relation to the United States dollar is going to affect the revenue from Exchange Fund account.—A. Well, we will lose money initially because we bought securities at \$1.10 and they are only worth 98 cents now, so we have a big loss at the moment.

By Mr. Browne:

Q. How much would that amount to?—A. I cannot give you the figure.

Q. Is it shown here?—A. No, sir, it is subsequent to this. I think it has already been tabled in the House.

The CHAIRMAN: Item No. 11. Have you any other questions on item 10? All of these individual items in item 10 are covered further on in the other items. Shall we go on to No. 11?

Item No. 12, amounts received from various Crown Corporations.

By Mr. Fleming:

Q. I have some questions on No. 12. First of all, with regard to Central Mortgage and Housing Corporation, is that all profit?—A. No, it is not profit; it is interest on advances. We made very large loans to the Central Mortgage Corporation.

Q. Well, yes, the various funds put at the disposal of the corporation under the various parts of the National Housing Act, but I understood that in addition the corporation showed a profit on those transactions. Am I wrong in that?—A. I am not the auditor of the corporation.

Q. Of course you do not audit Central Mortgage and Housing Corporation accounts. Well, I will not ask you any more on that. You are the auditor of the Canadian Broadcasting Corporation?—A. Yes, sir.

Q. You show there \$196,000 received from the Canadian Broadcasting Corporation. What was that made up of?—A. That is a loan.

Q. Repayment of loans?—A. Interest on loans.

Q. Entirely interest? They did not repay any loan?—A. No.

Q. As a matter of fact they were getting more loans at that time?

Mr. BROWNE: They are not making any profit, are they?

Mr. FLEMING: They were not then.

Mr. BROWNE: They are not making any profit on the whole transaction. This is merely taking it out of one pocket and putting it into another.

Mr. CROLL: Mr. Chairman, it occurs to me that whatever Mr. Sellar knows as auditor of the Canadian Broadcasting Corporation is not a matter of proper comment here, is it, whether they made profit or not. We are not now discussing Canadian Broadcasting Corporation affairs. This is a receipt for interest. If the question arises, did the Canadian Broadcasting Corporation make or lose money—is that a matter for us?

The CHAIRMAN: It is an extension, of course, of what we are doing now and I do not want to clamp down as long as it is as reasonable as it is now, but of course it won't be the proper moment to go into all details of all these items, but as long as we are within bounds I do not want to stop the questioning.

Mr. FLEMING: I thought we were getting along very well.

Mr. CROLL: Go ahead, I am listening!

By Mr. Browne:

Q. Is the Canadian Broadcasting Corporation in arrears on any of its payments?—A. The Canadian Broadcasting Corporation is not in arrears.

Q. And in each of these items was the amount for interest paid when it was due?—A. Yes. There was no principal paid; there was interest paid.

Q. The exact amount that was due?—A. Yes.

Mr. FLEMING: Can I ask you a question about this variety of interest rates that you refer to in the second paragraph in section 12. These rates, I suppose result from the fact, Mr. Sellar, that the various loans were made at different periods. Does that account for the variety in rates?

The WITNESS: Well, I put in considerable detail this year on that because I noticed that the British Public Accounts Committee a year ago considered the same question. It does not seem fair that one body should pay a different rate than another. On the other hand, when a body gets money for a short period of time it is entitled to a lower rate than one, say, which is going to have it for 20 years. I think that this question is a policy matter, and whether this committee regards it as within its field or not I do not know, but I do not think it would be very useful to have an opinion on the practices of the Department of Finance some time.

By Mr. Croll:

Q. Does not the Department of Finance pay various rates of interest at various times?—A. Yes.

Q. Does it not follow, then, that if they have to pay more they charge more?—A. What I mean is this, Mr. Croll—take the National Harbours Board which pays 2.75 per cent, while the Northwest Territories Power Commission pays a little higher rate. Both loans are for about the same period of time. That is what I mean.

Q. The National Harbours Board—would the loan have been made last year?—A. No, most of these are very old loans.

Q. That is my point. One may have been a 20-year loan and the other a 10-year loan made when money was cheaper or dearer. How does the government synchronize that?—A. Again I say I do not know the answer. The Department of Finance are the right people to ask if you are interested in the subject.

The CHAIRMAN: I think that the date on which these loans were made would have an influence on the rate. For example: How was the money market at that moment? It might be hard to get them all under one rate, if they were made at different periods.

Mr. FLEMING: That would explain to a certain extent the variety in these rates. There are two questions I want to ask: First of all, what about the possibility in fairness to these various enterprises of reviewing these interest rates with a view to more equal treatment; and secondly, should we not hear from the treasury department as to how they are working out, to satisfy ourselves whether or not there should be some recommendation made with regard to them?

The CHAIRMAN: Do you feel that we should hear the treasury officials now?

Mr. FLEMING: No, but at some stage of the sittings of the committee.

The CHAIRMAN: We have the officials with us now.

Mr. FLEMING: Are they here now?

The WITNESS: There is a statement in the public accounts under F-47, which gives the various loans and the various rates.

The CHAIRMAN: We are projecting into the public accounts immediately.

Mr. FLEMING: If Mr. Bryce is sitting here, perhaps he could give us a word about them.

Mr. CROLL: Let Mr. Sellar finish, and then we can have Mr. Bryce later. Let Mr. Sellar exhaust the subject now.

The CHAIRMAN: I am in the hands of the committee, but when an item is mentioned which we could quickly clear up, maybe it would be a good idea to have Mr. Bryce at this time. He can defend himself well, and if it is a matter of government policy, he can say so.

Mr. FLEMING: Let us try it anyway, Mr. Chairman.

The CHAIRMAN: Will Mr. Bryce please step forward to the table?

Mr. FRASER: At the bottom of F-47 the Soviet Union certainly have the benefit there.

The CHAIRMAN: Oh, you are getting ahead of our schedule, Mr. Fraser.

Mr. FRASER: That is at the bottom of F-47, and that is the one which Mr. Sellar quoted, Mr. Chairman.

The CHAIRMAN: Yes, but let us deal with this question of item 12, the interest rates. Would you care to express an opinion, Mr. Bryce?

Mr. BRYCE: (Assistant Deputy Minister of Finance): The general policy followed in the past is to make a loan at approximately the cost to the government of borrowing for a similar purpose at the time the loan was made. That is the policy which has been normally followed in regard to the crown companies and with regard to loans abroad. I would not say, however, that occasionally there might not be a little added to bring it out to a round figure, or something of that sort. But, in general, that has been the policy, so that one gets a variety of rates resulting from the different times at which the loans were made. But again I would not like to be categorical and say that at no time has a higher rate been made as a result of special circumstances. If you wish, I could inquire as to particular rates in the schedule, or the particular rates to which Mr. Sellar has drawn attention.

The CHAIRMAN: Do we not see that very thing in the figures set up on most corporations, where they make loans at different periods and pay interest on different issues of bonds according to the money market at the time they went on the market?

Mr. JOHNSTON: Did not Mr. Bryce indicate that the loans were made at the same time but at varying or variable rates?

Mr. BRYCE: I know that that has been our general policy and practice but there may have been occasional departures from that for reasons that apply to particular corporations or companies. I would not want to be categorical in stating that that has applied without exception, because I am speaking from memory.

Mr. FLEMING: Are there any other corporations than these listed in section 12? Are those all the corporations which would be equally treated by the government in all respects in the matter of the rates charged on loans?

Mr. BRYCE: I am not certain, sir, whether or not, for example, the rates on the Farm Loan Board may be set by statute.

Mr. JOHNSTON: Consider the two, giving the National Harbour Board, 2.75, and the Canadian Broadcasting Corporation 2.75. Would they be given at the same time?

Mr. BRYCE: I would have to look that up.

Mr. FRASER: Mr. Bryce said that they charged what they can borrow the money at on the market; then he put a cushion in as well.

Mr. BRYCE: Normally, we will add a slight margin.

Mr. FRASER: You have to add that to cover them?

Mr. BRYCE: That is the practice which is followed on loans.

Mr. FLEMING: It is a modest over-head.

Mr. BRYCE: Yes, it is a modest over-head.

The CHAIRMAN: Are there any more questions on item 12?

Mr. CROLL: With respect to Eldorado Mining and Refining (1944) Limited, \$1,057,000, you indicate here that it is in the form of a dividend rather than interest. And you say that it is the first declared since 1944. What moneys, for instance, do they owe us? Do they pay interest only, or do they pay something on account of principle?

The WITNESS: No sir. Eldorado Mining and Refining Company was originally an Ontario corporation. The Government of Canada expropriated all of the shares, and if my memory is correct, we offered \$1.35 and it was accepted by all. They had the right to go to the Exchequer Court if they did not like it. Therefore the money which Canada has invested in that corporation is in the form of common shares.

Mr. CROLL: I see.

Mr. FLEMING: This payment of interest by the Canadian National Railways was, I take it, on direct loans which were not initiated in the way in which loans are made now, that is, by the issuing of Canadian National Railways bonds which are guaranteed by the government.

The WITNESS: The money paid by the Canadian National Railways would be on loans from the government to the Canadian National Railways.

Mr. BROWNE: Some of them would go back quite a few years.

The WITNESS: Yes, some of them would go back over quite a number of years.

Mr. BROWNE: I noticed that some of the loans were only for one year. Several are for one year; and some are for six months. That is on page 47.

The CHAIRMAN: Are we finished with item 12?

Mr. BROWNE: Perhaps you could explain it, Mr. Sellar?

The WITNESS: I think you will find that—

Mr. BROWNE: They are still outstanding, according to the 1936 agreement and the 1944 agreement.

The WITNESS: I think you will find those low rates are on equipment issues which always sell at a low rate in the market.

The CHAIRMAN: Can we pass on now to item 13?

By Mr. Fleming:

Q. Mr. Chairman, I suppose Mr. Sellar can make a comment on item 13. I suppose we are all interested in these payments of the U.S.S.R. and China. It is obviously from the nationalist government of China. Where did the payment that they made come from, I mean the \$1,702,000?—A. You will allow Mr. Bryce to correct me if I am wrong because I am speaking from memory, but my recollection is that the \$1,702,000 was represented by bridge spans which the government of Canada purchased from the government of China in Canada and were sold, plus certain ammunition and other things that China had in Canada which the government of Canada took over at cost.

Q. There was no direct payment in funds?—A. My recollection is that is correct but if I am in error Mr. Bryce will correct me—

Mr. BRYCE: I am sorry I cannot say definitely. They were, of course, endeavouring, by any arrangement they could, to find funds to make payment, and there were transactions in which we had a share, but like Mr. Sellar, I would hesitate to speak from memory without looking up the facts.

Mr. FLEMING: I noticed the payment by China did not discharge all the liabilities with respect to interest. Were those assets which were sold and realized upon and the proceeds paid to the Canadian government, all assets of the national government of China which were available for the purpose in Canada?

The WITNESS: Mr. Chairman, Mr. Bryce would have to answer that question.

Mr. BRYCE: I am sorry, I cannot answer that, sir, without finding out.

Mr. FLEMING: Perhaps we could leave that to Mr. Bryce, Mr. Chairman, for him to inquire into it and give us a report at a later time.

The CHAIRMAN: I understand the witnesses will take notes as they usually do of any questions that are not answered and will provide the answer at a future meeting.

By Mr. Fleming:

Q. With regard the U.S.S.R. I wonder if Mr. Sellar could clarify this statement at the top of page 5, "the U.S.S.R. paid approximately \$29,000 in cash; the balance represents interest capitalized." Would you do that for us, Mr. Sellar?—A. Mr. Chairman, if my memory serves me right Mr. Bryce discussed this very transaction with the committee last year; and if I recall it correctly, it dates back to 1942 when certain food supplies et cetera were made available to the U.S.S.R. and last year settlement was negotiated with them and the arrears of interest were capitalized; and, for bookkeeping purposes the capitalized interest is revenue. Speaking subject to correction, I think the debt remains as it was, but I repeat that the transaction was dealt with in committee last year and Mr. Bryce may know something about it.

Mr. BRYCE: This was a settlement made by negotiation with the U.S.S.R. for amounts which we regarded as owing for shipments that took place immediately following the end of hostilities in 1945. Actually in negotiating a settlement one has to get some sort of agreement on it, and it was in the process of negotiation that the capitalization of the interest over the past period was agreed to.

Mr. FLEMING: What is the basis of the agreement now in regard to the settlement of the capital advances plus the arrears of interest which have under the agreement been capitalized?

Mr. BRYCE: I would have to find that out for you, sir. It would be dangerous to speak from memory. But the nature of it was that the amount of the indebtedness was established at a certain date and the interest rate was applicable as noted here, and there was a definite schedule for repayment. I can secure that information and provide it to the secretary for the record.

Mr. FLEMING: Yes. Well then I think we would be interested in knowing the terms of this settlement and what Canada had to give in the way of concessions in order to bring this into the agreement for payment.

The CHAIRMAN: I think in any agreement we have got to accept the principle that anything is better than nothing when you know that you have no other way of enforcing any negotiations.

Mr. FRASER: Show at the same time what they really do owe us because it is over \$10 million, isn't it—over \$11 million, and the odd hundred thousand there too—we might as well say \$12 million.

Mr. BROWNE: Yes, over \$12 million.

Mr. FRASER: It is over \$12 million now, plus interest.

Mr. BRYCE: There was a loan which they had which was discharged in that year. This is a loan which was made under the Export Credit Insurance Act. Then there is this other loan representing settlement for supplies under mutual aid.

Mr. FLEMING: I would like to ask a question about Czechoslovakia. I see we have received a payment of \$409,000 from Czechoslovakia. In what form was that payment made? Was that a transferrable exchange or was there some other basis of settlement involved?

Mr. BRYCE: As far as I know, sir, it was just a straight payment; but I must check myself again on that. I think it was an ordinary cash payment.

Mr. FRASER: Or was it just interest.

The CHAIRMAN: Are there any further questions on this section, gentlemen?

Mr. BROWNE: I would like to ask a question on the next paragraph there.

The CHAIRMAN: You mean on section 14?

Mr. BROWNE: 13, the next paragraph, under 13.

The CHAIRMAN: Oh, yes.

By Mr. Browne:

Q. I think I asked about this once before, the suggestion was that these figures here from the various provinces represent the amount which was due from the provinces?—A. If there are any arrears, sir, it would be very small amounts.

Q. But should there not be any other comment to say that this amount is due on such and such a date?—A. As far as I know there is none, but there might be \$50 or \$75, something like that, that had not been adjusted. It is so small that you can regard that as the full amount due by provinces and paid.

Q. Due or payable?—A. Due and paid.

The CHAIRMAN: Now we reach expenditures classified, section 14, 15 and 16.

By Mr. Fleming:

Q. On section 14, that goes into this matter of the transfer of defence equipment to other NATO countries. I would ask Mr. Sellar to what extent the material transferred is checked and how close his audit is on transfers of equipment of this kind; what type of audit is actually conducted?—A. It is a service audit, it is equipment.

Q. How is it handled, is all the equipment checked, or how do you check it?—A. Oh no, they list everything. As a rule this was the equipment for one division. In one case it was anti-aircraft guns, but it was all the equipment for one division; and there is a list there of what is supposed to be the equipment for a division and these are checked up the one against the other and a value put on them.

Q. But as to the physical articles—the material; is there a joint check made on behalf of Canada and the recipient country, a simultaneous check?—A. I can't tell you that, sir.

Q. Well then, on the other point, putting a value on the articles or material, how was that value set; how did you check it?—A. We did not check it. We took the vocabulary rates fixed by the army themselves, it was all army stuff, and we use their vocabulary price rates. I imagine they do too—and total it.

Mr. BRYCE: In general terms, this equipment is valued at the cost of replacement; and in some cases where it is a standard item in production it is the vocabulary price; but if it is used equipment, it will be necessary to make some allowance for depreciation; if it is obsolescent equipment we have to

make some allowance for obsolescence. Broadly speaking, the basis is to value it at the cost of replacing it with a suitable allowance for depreciation and obsolescence.

By Mr. Browne:

Q. As a layman, might I ask the meaning of "vocabulary cost"?—A. It is peculiar to the army. You and I call it a price list but they call it a vocabulary list.

Mr. FLEMING: Can Mr. Bryce add anything about the equipment transferred to miscellaneous fund in Canada between Canada and the recipient country?

Mr. BRYCE: I am sorry, I do not know the procedure they have for checking up. When these were authorized and come up for authorization there was a detailed list of the items of equipment, but what procedure is used about checking the actual transferred goods against it I do not know.

The CHAIRMAN: You understand, we are dealing with the audit and not the checking of the amounts. Mr. Sellar nor Mr. Bryce can be asked to give us details on that.

Mr. FLEMING: I think there must be a method of checking the actual physical material that is passing into the over-all audit at some point. The audit takes something for granted in working on this account, I would think. My next question is this: has there ever been any question raised—perhaps I ought to ask this of Mr. Bryce—as to the amount or quantities of material or articles transferred?

Mr. BRYCE: Not that I recall, sir. Where countries questioned whether in fact they get all that we had said they were going to; certainly there was no question that is substantial enough that I have heard of. There might have been questions of detail as to whether the list contained 25 of a certain item and in fact they had got 24, 23 or 26, and I probably would not hear of it.

Mr. FLEMING: You would know, I take it, in your position, Mr. Bryce, if there were any major discrepancies, would you? Would they report it to you or report it to the Department of National Defence?

Mr. BRYCE: It would be the Department of National Defence or the External Affairs Department.

Mr. FLEMING: Well, if we asked now for information about discrepancies, either major or minor that have arisen in the course of discussions between Canada and the recipient country, would you be in position to obtain that information?

Mr. BRYCE: I think it would be better, sir, if perhaps the secretary of the committee obtained it directly from the Department of National Defence.

The CHAIRMAN: But at this moment, if you do not mind, Mr. Fleming, we are working with the Auditor General's report and the auditing. We can hold him responsible for his audit but not any physical check of the merchandise. Later, if you apply for it when we get to another part of the public accounts themselves, then it might be proper to get the officials of the department concerned to be asked that. At this moment I think we should limit our questions to what is actually pertinent to his functions, the work of the Auditor General and matters which may come under the purview of the Department of Finance and that are interrelated but as to the actual check you might make it a point at a later date when we go on in the public accounts to refer to that.

By Mr. Fraser:

Q. Mr. Chairman, this \$175,532,000 which, at the year end was not an actual expenditure, where does that go to? That is in 14.—A. You want the countries?

Q. I just wondered where it went to.—A. Well, the account is divided as follows—are round figures good enough?

Q. Yes.—A. Belgium \$57 million; Netherlands \$57 million; Italy \$50 million; Luxembourg \$675,000, and then there is \$31 million to various countries. I have not got that broken down, and that totals around \$190 million, say about \$194 million.

By Mr. Browne:

Q. But to replace there is another fund created of \$175 million?—A. No, as I say, that comes to roughly \$194 million. In the year \$19 million worth of supplies were procured by National Defence replacing those. Therefore, the net amount is \$175 million and that, by the special legislation that parliament enacted a couple of years ago for this purpose, sets up a special account in Consolidated Revenue Fund so that those costs can be paid out of it when the replacements are secured.

Mr. FLEMING: When we vote \$2 billion to the Department of National Defence, to get the complete picture on expenditures of that department you should add to it, I gather then, a sum equivalent to the value of this equipment transferred to NATO countries if the department is permitted to purchase material to replace that?

Mr. BRYCE: Well, sir, there is an accumulated balance in that account available for expenditures. The original amount was \$300 million that was provided in the Act in 1950, and there have been items in the estimates since that time authorizing supplementary amounts to that. Now, of course, one has got to take the balance, during the year in question, as Mr. Sellar pointed out, there was \$195 million put into the account and about \$20 million utilized out of it. During the fiscal year that has just closed now, there were further transactions both in and out.

I am sorry I cannot tell you what the balance is at the present time but, as you say, to get an idea of the funds available to the Department of National Defence for expenditures it is necessary to bear this account in mind as well as the other.

Mr. FLEMING: It is in addition; in other words, there is authority in the Department of National Defence to expend, say, if the figure is \$300 million, that amount of money without direct parliamentary vote?

The CHAIRMAN: There was a parliamentary vote at one time.

The WITNESS: Parliament voted the \$300 million.

By Mr. Fleming:

Q. But expenditures year by year in and out of that?—A. It is a continuing thing.

Q. Which may be made, you might say, without a parliamentary vote?—A. Yes, that is right.

Mr. CROLL: That is for mutual aid?

The CHAIRMAN: Replacement of the material given for mutual aid.

By Mr. Croll:

Q. But that is under mutual aid for NATO?—A. It is mutual aid for NATO with the Department of National Defence being able to get new modern equipment for equipment they have.

Q. But what I had reference to was the question of Mr. Fleming that that item has been on the floor of the House many, many times. I have heard Mr. Pearson refer to it and I have heard the Minister of National Defence refer to the item of mutual aid under NATO many, many times, so that it is not a matter of not coming before parliament. That was my point.

Mr. FLEMING: I think Mr. Croll is a little at cross-purposes on this, Mr. Chairman. The point, as I understand it, that we have cleared up is this: if there is \$300 million in that fund it was voted there once by parliament, we will say, in 1950. Well, that is the equivalent of a revolving fund and if that money goes out in 1951 the Department of National Defence has authority without any further vote of parliament to expend \$300 million in replacing equipment which has been given to NATO countries. And that does not enter into the \$2 billion aid that parliament is being asked to vote so that if the figure were actually \$2 billion and the other one exactly \$300 million, what the Department of National Defence could expend this year would be \$2,300,000,000.

The CHAIRMAN: That is right. I think it is the words "lack of control by parliament" that Mr. Croll objected to. The control of parliament came when the \$300 million was voted to replace what we gave to NATO, but you are right to say that \$300,000,000 is in excess of the regular expenditure.

Mr. FLEMING: When we talk of expenditures that that department can make, you have got to add this figure to the vote this year by parliament?

The CHAIRMAN: That is right. Item 15? We will go on, then, to 16. At the top of page 6, Canada Shipping Act, chapter 34, 1944.

By Mr. Cavers:

Q. Mr. Chairman, in regard to the Canada Shipping Act, would the suggestion of the Auditor General be that the levy on ships coming in should be doubled to take care of the deficiency here? Actually it is providing medical service for men who are engaged on shipping companies' vessels. Has any further consideration been given to that?—A. My place, sir, is not to make policy suggestions to this committee. I am simply drawing to the notice of this committee that years ago parliament passed a certain Act which apparently was then designed to make this service self-supporting. With the passage of time it is no longer self-supporting and I am bringing that to your notice. If you think it should be increased or otherwise, that is policy; I am simply bringing the situation to you.

Mr. GIBSON: Where you say 305, where could we find that section 305?

The CHAIRMAN: In the Canada Shipping Act.

Mr. BROWNE: Would it not be a good idea to make a note that consideration be given to the increase in the rate so that it will be self-supporting?

The CHAIRMAN: The note will be taken.

Mr. GIBSON: Freight rates must have quadrupled since that time.

The CHAIRMAN: I suppose when we go into that we should have the witness from the department to give us an idea why it has been changed?

The WITNESS: If I might interrupt, that is what I was going to suggest to you because the ocean-going vessels are self-supporting; it is the coastwise ships where you are taking a loss and, therefore, you have the question of Canadian policy involved there and you should have a departmental officer to give you information on that.

Mr. FLEMING: It is the Department of National Health and Welfare.

By Mr. Kirk:

Q. Before we leave that, this is not a case of all the small fishing boats that pay that fee, is it?—A. There are roughly 4,500 small coastwise vessels which collectively have a crew of about 18,000. It is the local shipping and that is the problem you have to consider, sir.

The CHAIRMAN: Now, the Cold Storage Act, chapter 25.

By Mr. Fraser:

Q. In regard to this, the last paragraph of that chapter in regard to insurance, I take it from this that if a cold storage plant is insured and goes up in flames, the owners get the insurance money. Then they rebuild and can start in again and get their 15 per cent right off the bat. Is that right—and they also have the insurance money?—A. Not if the same people rebuild, but if they change their organization they can start off qualified for 30 per cent. However, sir, might I draw to your attention that in the Speech from the Throne this year there is notice that there is to be legislation in regard to the Cold Storage Act and this sort of thing may be covered by that.

Q. That might clear this up?—A. I do not know, but it might. The government has given notice of legislation.

The CHAIRMAN: Item 19, Civil Service Superannuation Act.

By Mr. Fleming:

Q. Mr. Sellar, in this item you have adopted a policy of dealing with a particular case?—A. Yes, sir.

Q. What about the position of the superannuation fund in general? Are you in a position to make any comment on this question?—A. I do later on, sir.

By Mr. Browne:

Q. I notice that an employee has been taken from the government of Manitoba for the use of services. In what department was he taken on?—A. He was employed by the Department of National Health and Welfare.

Q. In the Manitoba government?—A. No, in Ottawa. I do not know the name of the department he was in for Manitoba but here he was employed by National Health and Welfare. My point is simply that here is a man who is acquiring superannuation status for the same period of time from two governments. That is the only point but I thought you should know about it.

Q. He was getting \$6,996 from the government of Manitoba?—A. He was getting \$6,900 from the government of Manitoba. He was paid at the rate of \$9,000 odd by the government of Canada so he netted about \$2,400 and the rest went to the government of Manitoba to reimburse it for its payments to him as he was still employed by it. He is now employed solely by the government of Canada and his salary last year was \$9,000.

The CHAIRMAN: Would Mr. Bryce care to comment?

Mr. BRYCE: Well, sir, I noted this case when I received the Auditor General's report. I sent for the papers on it but I am sorry that today I have not yet received them. My recollection is this was a legal problem and that the officer, once he became a public servant of the government of Canada, had the right under the Superannuation Act to elect to count his earlier service—and it was a question of the provisions of the law making it possible for him to do so. I would have to look further into the papers I had prepared at the time to see whether there was any opportunity to avoid this. I think the problem arose from the provisions of the Act itself rather than from any deliberate decision.

Mr. BROWNE: Is there provision that a man coming from the provincial service into the federal service may by a ruling of the federal government have his past time in the provincial service taken into consideration?

The WITNESS: Well, the problem, sir, was that the lawyers held that the period during which he was on loan here, counted legally as a period of service in the public service of Canada under the provisions of the Superannuation Act.

The CHAIRMAN: For all the period that he had been working on loan in Ottawa.

Mr. BROWNE: He is employed by the federal government but drawing a pension from the Manitoba government.

Mr. BRYCE: Whether he is drawing a pension from the Manitoba government I do not know—I presume he may be.

I think that while this is a question of policy it is a proper thing for the Auditor General to draw attention to; and when the Superannuation Act comes up for review it is a matter that might very well be borne in mind.

The CHAIRMAN: Item No. 20, Defence Appropriation Act.

Mr. BROWNE: This is the \$300 million again.

Mr. FLEMING: Yes.

The CHAIRMAN: Item No. 21, Prairie Farm Assistance Act.

Item 22, Public Works Act?

Mr. FLEMING: On item No. 22, Mr. Chairman, the Auditor General has given two instances here as I understand it, in connection with votes 296 and 297. He says “. . . the sum involved in extras was so substantial as to give rise to a question of power to proceed without again inviting tenders.”

Mr. Sellar will correct me if I am wrong, but the contracts were awarded in compliance with the Act. After the tenders had been properly called, in the course of carrying out of the work some extras were added. Those extras were of substantial amount—well over the \$5,000 statutory figure—and in those cases the extras were approved and added to the contract without any calling of tenders. Is that the gist of it?

The WITNESS: Not exactly, sir.

Let me take them in turn. First the Joliette building. Tenders were called and the Governor in Council awarded the contract to the lowest bidder. Three bidders put in bids and the low man was given the contract. After the work started the unemployment insurance people asked for double the space that was going to be allotted to them and the R.C.M.P. asked for space. The result was—and I have the figures here—the dimensions were to be 147,000 cubic feet in the first place but these additional requests necessitated a building of 291,000 cubic feet.

Therefore, public works negotiated with the low contractor and they negotiated well. I am not reflecting on Public Works negotiations at all. They tried to make a good deal and I think they did, but it seemed to me you had really a brand new structure—you had one double the size. Therefore, in the ordinary case you might say it was a new job and I thought I should bring it to your notice.

The second contract was at Fort Erie. They started on the foundations but the Post Office asked for more space and they had to revise all of the plans. Public Works went back again to the low bidder who was awarded the contract—and I might say the low bidder's price was \$49,000 and the next man was \$63,000 so it was a close price. When it came to this new design he asked \$95,000 for the whole job and the department argued with him and brought him down to about \$90,000. So, I think in both instances Public Works carried out good negotiations but it just seemed to me that perhaps there was something that the Act required which was not done—so I am bringing it to your notice. I am not worried over the departmental application of this at all.

Mr. BROWNE: Mr. Chairman—

The CHAIRMAN: Are you changing the subject?

By Mr. Browne:

Q. No, I am going on with it.

May I refer the Auditor General to I think it is page V-20, Joliette public building, Department of Public Works, where the vote is given here as \$190,000. That \$190,000 for that year was intended for that public building?—A. Yes, sir.

Q. Then the contract was \$179,482, is that right? In other words, less than the \$190,000?—A. Yes, sir.

Q. But it was found that they needed more space so the offer of \$365,000 was accepted but there was no vote for that?—A. It was not finished.

Q. We will have to vote more money this year—or was it done by supplementary estimate at the beginning of the year?—A. It may have been, I will have to check on that.

Q. It shows that \$367,000 has been paid—which is more than the vote?—A. You have to bear in mind this job was started in 1949.

Q. I beg your pardon, I think it says the contract was for \$367,000?—A. I will get you the particulars of that, sir.

Q. And can you do the same thing about Fort Erie. The same difficulty is there—the whole thing is larger than the amount voted?—A. Yes, sir.

By Mr. Fleming:

Q. What in general is the practice of the Public Works Department in those cases? Are these two rare and exceptional cases?—A. These are quite exceptional.

Q. Even in cases where it is not a fundamental change in the structure of a new building for which tenders have been called, we will say, the matter of extras might not in itself be of major importance but nevertheless might be more than the \$5,000. There is no practice of calling for tenders ever is there?—A. No, but they go to the Governor in Council for authorization.

The CHAIRMAN: It will have to pass the Treasury Board?

The WITNESS: There is control over the administrative application. There would be no use calling for tenders when you have a contractor on the job because he can be the low man always. Your engineers, if they are competent and on the job, will see that he is not charging you too much for those extras.

By Mr. Fleming:

Q. Those two cases, votes 296 and 297, I gather, were not before Governor in Council?—A. Oh, yes, the Governor in Council approved these. Tenders were not called but they were before Governor in Council.

Mr. BROWNE: You will get that information?

The WITNESS: Yes, sir.

The CHAIRMAN: The next section, statutes regulating works' and supplies' procurement, items 23 to 25, inclusive.

By Mr. Fleming:

Q. There is a point on item 23. The Auditor General sums it up in the last sentence: "To rely on holdbacks under one contract to protect the interests of the Crown and workmen under another is unusual." Well, Mr. Sellar, is it not more than unusual? Is it not a failure to comply with the requirements of the Act?—A. This is the only case, sir, that I noticed. It was in connection with the tunnel under the Lachine Canal at Montreal. The extra building was a small job, a \$55,000 building for administrative purposes. The main contractor had the whole thing, a big company, quite

safe as far as it goes, but I thought as a matter of good administration that I should just give a little publicity to a minor omission by the department and they have taken notice of it.

Mr. FLEMING: Verbum satis sapientibus.

The CHAIRMAN: Item 24.

By Mr. Browne:

Q. Was that not before the House last year?—A. Yes, sir, it was increased to \$15,000.

Q. There was no figure actually mentioned last year, but there was a compromise made. That \$15,000 was not there?—A. It is in the legislation now.

The CHAIRMAN: Item 25.

By Mr. Fraser:

Q. On item 25, what was Mr. Sellar's reason for bringing this out? Was it the fact that the contractors were not held to their contracts?—A. The reason I brought that out, sir, was because while a contractor for works must give a security for performance of his contract, yet there was no obligation, has never been an obligation to give security for the performance of a contract for the production of supplies. Therefore there was no security given in either of these cases. Under the Financial Administration Act there is power there to make regulations governing this and I was told the other day that regulations are to issue within the next few days covering this point. I have not seen them.

Q. Then the contractor for supplies will have to put up a bond?—A. For the performance of his contract.

Q. For a percentage of his contract?—A. As I say, I have not seen the regulations, but I understand that is the intent.

The CHAIRMAN: Veterans' Land Act, sections 26 to 29, inclusive.

Mr. BROWNE: Mr. Chairman, why does Mr. Sellar publish this here?

The CHAIRMAN: What paragraph are you talking about?

Mr. BROWNE: Paragraph 26.

The WITNESS: The point is in paragraph 27, sir, last sentence:

While the director is declared to be, by the Act, a corporation sole, all moneys involved are drawn from Consolidated Revenue Fund; therefore if the real intent of parliament is that "cost to the director" be synonymous with cost to the Crown, an anomalous situation exists with respects to the director's land acquisitions in this irrigation area.

Because the Department of Agriculture spent money on this development and the director has not taken that into calculation in applying the Veterans' Land Act. Paragraph 26 is really introductory.

The CHAIRMAN: The next section, War Service Grants Act, paragraph 30.

Mr. FLEMING: I wonder, Mr. Chairman, if you should not give that, or mark it at least for further consideration, the final paragraph in section 26. I take it, Mr. Sellar, that is in the category of matters you are calling to our attention. It may become a question of policy, but you are simply drawing attention to it?

The WITNESS: Yes, I thought there should be something in there for the veterans. If a fellow logs trees off his land he should be able to get something for his labour. If he sells gravel off his land, and he loads it, he should get something for his labour, but as the Act now reads the poor fellow is not legally entitled to keep any. I think that sometime when you have that Act open you should give him a break.

The CHAIRMAN: We will take a note of item 28 and if necessary call witnesses.

Mr. FLEMING: If we are going to call someone from the Veterans' Land Administration, I suggest including paragraph 29 in it as well. There is a point raised there, also.

The WITNESS: It is a matter of statute.

The CHAIRMAN: Would you enlarge on your question for the record, Mr. Fleming?

Mr. FLEMING: All I am mentioning about paragraph 29, without going into it now, is that there is a point there we might as well concern ourselves with if we intend to have a witness come here later from the Veterans' Land Administration. The Auditor General has called attention to a subject here in paragraph 29 which we might well concern ourselves with.

The CHAIRMAN: It was just to get clarification into the record. I wanted to get the clarification in so that if anybody bothers to read they will know what you are referring to, as they will not in general have the Auditor General's Report beside them.

War Service Grants Act, item No. 30.

Mr. BROWNE: These four cases that you refer to, are these typical cases?

The WITNESS: They are not a great many cases, sir. These are selected cases, because they happen to illustrate the situation pretty well because of their unusual characteristics. There are always a certain number of these cases arising and I honestly believe you might reasonably consider your legislation in this regard. It is pretty wide open now.

The CHAIRMAN: Are we agreed that we are through with item 30?

The next section deals with year-end charges to appropriations.

Mr. FLEMING: I wonder if this would be a good place to adjourn, Mr. Chairman, for the day. We have already covered 30 items today.

The CHAIRMAN: It is quite agreeable to me. We have covered one-third of the Auditor General's report.

Is it agreed that we have a meeting on Thursday afternoon at 4 o'clock?
Agreed.

The meeting adjourned.

HOUSE OF COMMONS

Government
Publications

ON

CHAIRMAN—MR. L. PHILIPPE PICARD

No. 2

THURSDAY, MAY 22, 1952

WITNESSES:

Mr. Watson Sellar, C.M.G., Auditor General.

Mr. R. B. Bryce, Assistant Deputy Minister of Finance.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1952



MINUTES OF PROCEEDINGS

Room 430,

THURSDAY, May 22, 1952.

The Standing Committee on Public Accounts met at 4.00 o'clock p.m. The Chairman, Mr. L. Philippe Picard, presided.

Members present: Messrs. Anderson, Ashbourne, Browne (*St. John's West*), Cauchon, Cavers, Croll, Denis, Fraser, Fulford, Harkness, Helme, Jutras, Kirk (*Digby-Yarmouth*), McCusker, Pearkes, Picard, Robinson, Stewart (*Winnipeg North*), Wright.

In attendance: Mr. Watson Sellar, Auditor General, and Mr. R. B. Bryce, Assistant Deputy Minister of Finance.

The Committee considered the Auditor General's Report for the year ended March 31, 1951.

Messrs. Sellar and Bryce gave answers to questions asked of them at the previous meeting.

Mr. Watson Sellar's adjourned examination was resumed.

Mr. Bryce was heard briefly on specific questions arising out of Mr. Sellar's examination.

And the examination of Mr. Sellar still continuing, the said examination was adjourned until the next meeting.

At 5.45 o'clock, p.m., the Committee adjourned to meet again at 4.00 o'clock p.m. on Tuesday, May 27, 1952.

ANTOINE CHASSE,
Clerk of the Committee.

EVIDENCE

MAY 22, 1952.
4.00 p.m.

The CHAIRMAN: Gentlemen, we have a quorum.

Before we start Mr. Sellar will bring in some answers to questions asked at our previous meeting.

Will Mr. Bryce please step forward to the table also?

Mr. Watson Sellar, Auditor General of Canada, called:

The WITNESS: Mr. Chairman, Mr. Johnston asked at the last meeting about the distribution of the prize money. In 1950 an Act was passed directing that 68 per cent be paid over to the Canadian Naval Services Benevolent Trust Fund and 32 per cent to the Royal Canadian Air Force Benevolent Fund. Up to the 31st of December last \$1,760,267 had been paid to the Naval Service trust fund and \$828,362 to the Royal Canadian Air Force fund.

By Mr. Croll:

Q. Mr. Sellar, is that an accumulation of war prize money?—A. That is an accumulation of prize money from Canadian seizures plus the share Canada received from the United Kingdom.

Q. How long?—A. Up to the end of that period. There may be still more money coming from the United Kingdom.

Q. It seems like quite a sum?—A. It is quite a sum.

The second question was asked by Mr. Fleming with respect to the number of cheques of \$100,000 and over that were issued. I thought there was a list kept by Treasury but there is no list, so I had my men make a check of the vouchers the Department of National Defence paid in the last month of the year. There were 270 cheques of over \$100,000. I think Mr. Fleming was particularly interested in National Defence.

Mr. ROBINSON: 270 in National Defence?

The WITNESS: In National Defence in the month of March plus the tail-end into April.

The third question was asked by Mr. Browne who wanted the full expenditures by years on the Joliette public building and the Fort Erie public building. I have here a tabulation which I suggest be placed on the record.

The CHAIRMAN: You might read it.

The WITNESS:

JOLIETTE PUBLIC BUILDING

Fiscal Year	Vote No.	Expenditure
1948-49	335	\$ 57 00
1949-50	334	5,323 05
1950-51	296	52,552 69
1951-52	343	286,298 93
1952-53	338
		<hr/> \$344,231 67

FORT ERIE PUBLIC BUILDING

Fiscal Year	Vote No.	Expenditure
1949-50	335	\$ 17,523 66
1950-51	297	78,191 34
1951-52	345	56,541 10
		<hr/>
		\$152,256 10

There is a vote in the current year for Joliette to finish it off but no expenditure has yet been made.

The CHAIRMAN: Now, I think Mr. Bryce has answers to some questions that were asked at the last meeting?

Mr. BRYCE: Mr. Chairman, I was asked about the payments by Czechoslovakia on its loan and by China on the loan it received, under the Export Credit Insurance Act—and the terms of settlement of the claim on the U.S.S.R.

In regard to the Czech loan I was asked whether the payment on it had been made from funds obtained in the normal commercial manner. That is the case. Czechoslovakia paid its loan out of ordinary funds obtained through the purchase of Canadian exchange.

Secondly, in regard to the U.S.S.R., terms of settlement of the claim, with U.S.S.R. were agreed on in an exchange of notes of August and September, 1950, which I understand were tabled in the House in February of last year.

This is the claim to which the Auditor General refers somewhere in paragraph 13—right at the bottom of paragraph 13. I might say this provides for the payment of the claim as a whole—the principal amount in five instalments—on the 30th of June, 1953, 31st March, 1954, the 31st of December, 1954, the 30th of September, 1955 and the 30th of June, 1956.

Interest is payable at the rate of 2 per cent per annum on the unpaid balance of the debt calculated from the 1st of July 1950. That is roughly the date on which the negotiations were coming to a conclusion and the interest prior to that date at three-quarters of 1 per cent, reckoned as appropriate to a short term debt was capitalized.

Those documents were tabled and I presume that unless you want them there is no need now—

The CHAIRMAN: No.

Mr. BRYCE: Finally, I was asked about the payment by China of the loan under the Export Credit Insurance Act. The Auditor General has noted the payments of interest. I am not sure, sir, whether that item was intended to be all interest or some principal and he noted that—the government of Canada had agreed to defer to December 1952 some of the interest maturing after December 31, 1950.

I was asked about the series of payments made by China in that fiscal year and whether they had utilized for those purposes all the assets that were available to them here. They made payment in that year of those amounts that the Auditor General notes as interest—\$1,702,000, and they made payment of \$756,557.34 on principal. Part of the payments were made an account that they held, or that was held by the Chinese government supply agency, with the Imperial Bank of Canada under a letter of credit in favour of the Canadian Commercial Corporation, which had been arranged for the purchase of certain supplies which, owing to the changed circumstances of China they could no longer secure and export. By negotiation it was arranged they would apply those funds toward the payment of the amount due under their credit agreement.

Another amount was obtained, \$120,000 odd, from the Canadian Commercial Corporation, which was a balance that was being held by the corporation for

the account of the government of China against certain orders for purchases which they were trying to make and which could not be carried through because of the changed situation in China.

Finally, the government accepted title to certain items which the government of China had purchased out of the credit and which again, because of the changed circumstances in China, they could not export to the Chinese mainland and the government accepted title to those as payment against the loan.

Some of these items were bridge spars, some of them were ammunition, and in those cases ultimately some loss was realized in the disposition of this material. But it was felt that it was as good a recovery as we could get in the circumstances.

Mr. FRASER: What was the amount?

Mr. BRYCE: The amount obtained—I can't give you the amounts realized from the information I have here.

Mr. FRASER: Well, the total amounts and then what was written off, that would be the easiest way to get it?

Mr. BRYCE: The amounts written off, sir, were not written off formally. It was agreed with the government of China that the payment of them would be deferred to December 1952. The amounts are given in the report of operations under the Export Credit Insurance Act, Part II, which has been tabled in parliament last year and this year. The whole situation is set forth in there as regards the amounts owing and paid and that is already available and I just thought it was unnecessary to put it in the record again.

Mr. PEARKES: Were any of those connected with the Ming Sung Company?

Mr. BRYCE: No, sir, the Ming Sung Company was a guaranteed loan.

The CHAIRMAN: Does this complete the answers?

Mr. BRYCE: Yes, sir.

The CHAIRMAN: Now, gentlemen, we are on paragraph 31, year-end charges to appropriations on page 11.

By Mr. Fraser:

Q. May I ask Mr. Sellar about that case 1 in there regarding the Quonset type huts. Would the treasury officers have to O.K. those? They would have to O.K. those before it was put through or after it was put through?—A. They would have to reserve funds when the contract was awarded and before they could make the payment the Consolidated Revenue and Audit Act required that a certificate be given by the department that it had received the materials, that they were in accordance with contract and that the sum was legally due and payable.

Q. Despite the fact that the Governor in Council had not given consent?—

A. There is no obligation for an approval of the Governor in Council generally for the purchase of supplies. In this case and in case 2 there was such a provision in what was then the Defence Supplies Act which has since been replaced; but it provided that the minister without the approval of the Governor in Council may enter into a contract if in the opinion of the minister the contract must be entered into immediately in the interests of defence.

Q. But this is one where the huts were to be stockpiled?—A. But it was regarded as coming within the ambit of the Act. That is why I am bringing it to your notice.

By Mr. Pearkes:

Q. Regarding case 2, can you say whether those radar sets were obtained from Canadian Arsenals or from whom?—A. Case 2?

Q. Case 2.—A. It was purchased from the Ontario Hughes-Owens Company.

The CHAIRMAN: Any further questions?

By Mr. Harkness:

Q. As far as case 1 is concerned, have you any information as to whether the price paid was high or low?—A. No, that would be a matter that the Department of Defence Production would pass on, that the price was reasonable when they were contracting.

Mr. FRASER: This was given without tendering at all?

Mr. HARKNESS: Yes.

The WITNESS: What you would call a negotiated contract.

By Mr. Harkness:

Q. In other words, what you are directing attention to is that it was without tender and the huts, the Quonset huts were stockpiled so they did not properly come under the provisions of emergency purchases?—A. Not quite, the reason in bringing it to your attention is only because of the wording in a particular section of an Act and I thought you might be interested in knowing the application given to that section.

The CHAIRMAN: Any further questions?

By Mr. Pearkes:

Q. Regarding this radar equipment, I do not know whether the same type of equipment is made in the Canadian Arsenal which is a Crown corporation and I am surprised to hear you say that tenders were not called, that we went to an outside firm rather than going to a Crown corporation?—A. You would have to ask somebody who knows about that. I was interested simply on account of it stating, as I said here, that the delivery must be not later than March 15, 1951. There has been no provision made in the 1952-53 year to cover this. That is the reason I am drawing attention to it. It is a year-end charge.

The CHAIRMAN: If there is anything in this that you want to ask any questions about at a later date, you might take a note and when we are through with the auditor's report it will be in order to ask questions if the committee still wants to sit.

By Mr. Pearkes:

Q. I think Mr. Sellar said definitely that they went to an outside firm?—A. Yes.

The CHAIRMAN: But I mean if you want to pursue it further after we are through with him, we will be open for other work if it is not too late in the session and you can ask for a witness. I gave that undertaking the other day so you might make a note of the paragraph and move for it after we are through.

By Mr. Harkness:

Q. Now, case 3 is an example of exactly the same thing except in this case there could not possibly, I would think, be any question of emergency demand?—A. No, the departmental explanation is that they had word that prices were going to go up and they thought it prudent to get in a reserve supply.

Q. A supply of tires?—A. Yes, it happens that they did not have any storage space so they did not take any delivery until after March 31. The Act says the goods must be delivered before March 31. That is why I am noting it. Strictly speaking, I think they should have charged that cost to the next year.

Mr. FRASER: Well, purchasing like that too would help to put the cost of tires up.

The CHAIRMAN: They would have had to buy them some day, whether a week before or a week after.

Item 32, at the bottom of page 11.

Mr. HARKNESS: Just a minute on 32.

The CHAIRMAN: I am waiting a few minutes to see if members have any questions.

By Mr. Harkness:

Q. Well, as I understand this 32, these amounts that you have put down here do not, strictly speaking, come within this provision which has appeared for some years now in the defence department estimates that notwithstanding section 29 and so forth commitments might be entered into for acquiring larger amounts than the sums appropriated. Is that the sense of this?—A. No, the point I am making is this. The accounts were ready for payment. Therefore, strictly speaking they should have been paid in that year but they did not have enough money. It happened that the operating of this special provision resulted in the department at the end of that year not having enough money at the year end to liquidate all that came for payment.

Q. In other words, through the use of this notwithstanding provision they had spent more than they were actually entitled to spend?—A. They had contracted for more. They did not have the money to pay for it when it came in faster than they anticipated. Take the air service where accounts of \$4,200,000, were ready, \$2 million of that is due to the United States government, which is a typical example of a commitment that happened to have deliveries made faster than they anticipated.

By Mr. Stewart:

Q. Was that the reason for it, that deliveries were made faster than they normally anticipated?—A. In that case, yes.

Q. Thinking delivery might be, say, six months to come across and they were in faster than they could take it?—A. If you take the over-all picture of the grants for national defence the answer is yes. Specifically you might say there were accounts there that were anticipated and should have been paid, but if you take the over-all picture it was deliveries coming faster than they had been anticipated.

The CHAIRMAN: Section 33.

By Mr. Stewart:

Q. We are dealing with payments and tax deductions from the pay of army service personnel. Why were they not remitted?—A. Because their accounts were not in such shape that they knew what to pay.

Q. But aren't the accounts made up at the end of each month?—A. No, sir, not in the pay corps. They do not bring their accounts together at the end of each month; they are considerably in arrears now. That is our worry.

Q. Well, how do they do it? I just do not understand why they should be three months in arrears. I gather the men are paid on time?—A. It is a deduction from the source.

Q. Yes, I know.—A. Not only is it a deduction from the source, but under the legislation of last year no service man need make any income tax return at all. The deduction from source is taken as the payment of income tax.

By Mr. Fraser:

Q. Even if he had a private income?—A. If he has a private income of over \$50 he must, but I am thinking of the chap Mr. Stewart is thinking of.

By Mr. Stewart:

Q. Let us take Shilo Camp. Pay is issued there and deductions are made for income tax. Now, what happens to these deductions?—A. Those deductions

are to be reported to the headquarters in Ottawa and payment made to Income Tax.

Q. But that apparently is not done?—A. And it was not done. They were three months in arrears at last year end; they are further in arrears today.

Mr. CROLL: Why?

The CHAIRMAN: When you say "remit" you mean "remitted to Income Tax"?

The WITNESS: Yes.

By Mr. Stewart:

Q. Surely at the end of January they would know what they paid out to the men? They know the balance they have in the bank account for income tax. That cheque should be remitted within a month or is there some difficulty?—A. It has not been. That is why I am referring to it.

By Mr. Croll:

Q. It was not what?—A. It was not remitted to the Income Tax people.

Q. And you report that to us in this and now you say even today they are in arrears again?—A. They are still in arrears.

Q. Aren't they paying interest to the Income Tax people?—A. No, sir, because as far as the government is concerned the man had paid.

Q. I see what they are doing; it is a matter between the two departments?—A. It is a clearance between one department and the other.

Q. As far as the individual is concerned it is a plague on both their houses?—A. Yes.

By Mr. Fulford:

Q. Have you any recommendations to bring this up to date?—A. We have been pressing the department that they should study the situation very carefully. That applies, sir, not only to income tax but to their superannuation account. If a chap resigns he has some credits. It may take several months before he gets his money back under the present system. I do not think that is fair. I think when a fellow is legally qualified he should get his money very quickly so I do not think the situation is fair; this system is founded on World War I.

By Mr. Wright:

Q. What would happen if a commercial firm failed to send in their collections by way of deductions?—A. That is different, sir.

Q. Why should it be?

By Mr. Harkness:

Q. The total result of this is that at the end of the fiscal year the Department of National Defence had \$550,000 more on hand than they really should have had and that constituted part of this underfall discovered in their expenditures.—A. I do not know about that, but it is money that should have been shown as income tax department revenue at the end of the year but it was not.

Q. And seeing it was not, it also constituted part of the \$300 million which the Department of National Defence had on hand which they had not appropriated last year.—A. It forms part of the residue in their vote.

By Mr. Stewart:

Q. Have you made any recommendations to clean this matter up? I should think three months is far too long a time for these deductions to be outstand-

ing.—A. I feel that way, sir, and last November I drew it specifically to the attention of the department and I know that they brought from the west a senior officer, an experienced accountant, to seek to improve the system, and I know that he has been working very hard on it. I think he is a colonel or a major. When he was talking to my supervisor the other day he was very hopeful as to the over-all position but he has not brought everything up to date and that will take a little time.

Q. Do you think that if you fired a few paymasters that would help?—

A. I do not know, sir. You are getting into a broad question.

Mr. CROLL: They would be very mad at you if you fired the paymasters!

The CHAIRMAN: Item 34, works improvements involving joint participation.

Carried.

Contributions to municipal works, items 35 and 36.

By Mr. Harkness:

Q. Why do you bring those particulars to our attention?—A. There are two different reasons, sir. In item 35, the expenditure in my opinion is quite within the powers of the department. I am not challenging that.

Q. I was wondering whether it was or was not—that is why I asked the question.—A. There has been over the years much discussion and legal proceedings in the United States and in Australia as to the power of the central government to spend money on activities belonging to the state or municipal authority. So far as Canada is concerned, that matter came up on the reference that went to the Privy Council over the Bennett legislation of 1935, and the Privy Council raised the issue then as to the authority to spend on such things. It came up again when the children's allowance bill was before the House and the then Minister of Justice, now Prime Minister, stated his view that he considered that it was within the competence of parliament to appropriate money for any purpose that it saw fit, but that parliament could not by means of such legislation trespass on the local powers of the province. Now, then, that is the general picture, but it seems to me, sir, that when in a case like this a new work is being undertaken, even though it only involves a petty sum, instead of that being charged to a general vote parliament should know of the intent to spend on such a work; it might be desirable that it be set out in the details. I am talking about the future lest you ultimately get involved in large outlays without knowing about it at an early stage.

Q. In other words, it gets you into the whole general field of Dominion-Provincial relations?—A. It might. That is the whole point to that. I am not worried over the small sum involved. The other one involves construction of two airports. In both cases the land for the airports was to be acquired by the municipalities and the government of Canada agreed to spend a considerable sum of money in developing them. The agreement provides that the municipality will not sell the airport for any other purpose without consultation with the government of Canada. That is the general situation there.

Q. Not "without permission", just a consultation?—A. Now, in 1947 I noted in the report to the House of Commons that the Department of Transport had constructed airports in the state of Michigan, not really airports but landing strips, and that the cost was charged to a vote for capital works although the title was in the state of Michigan. The department agreed that I was right and the following year the minister included in his estimates a special item to regularize this and put in a special vote which has been continued ever since. Now, it so happens these two particular works are also charged to a general vote for capital works belonging to the department. The next vote in the estimates provides for assistance by the department, contributions to municipalities, and it seems to me that these two should have been charged to that

particular vote. I think the objects are quite good, I am not criticizing that in any way, but only from the viewpoint of parliamentary control of the estimates. That is why I included these two paragraphs.

Mr. BROWNE: Where is the vote in the public accounts? Is it vote No. 500?

The WITNESS: The vote is under Department of Transport.

Mr. BROWNE: On page 576.

The CHAIRMAN: We are switching to public accounts, Mr. Browne. At this moment, if you need any information take a note of it and after we are through with the Auditor General we can take that up. It was agreed we would go through the Auditor General's report and not dig into the public accounts as we go; otherwise we will never finish this, and some members have in mind that if we finish this early enough we can call a department. That was the agreement.

Mr. BROWNE: Well, I do not wish to transgress any agreement you made, Mr. Chairman.

The CHAIRMAN: It was not only made by myself, it was more or less agreed by everybody at the last meeting. If we go back now to each item in the public accounts we will never get through with this part.

Mr. BROWNE: I do not see, Mr. Chairman, how you can logically follow that out without consulting the vote.

The CHAIRMAN: With the information you have now from the Auditor General—I thought that he gave quite a realistic picture of what happened.

Are there any other questions pertinent to the item?

Carried.

Grants to fairs and exhibitions, item No. 37.

By Mr. Harkness:

Q. Was this overpayment of \$1,553 contrary to the vote or contrary to the order in council?—A. Contrary to the agreement. This is just a needling item, if I may use the phrase, on the department. They agreed with me privately.

Q. It does not contravene the vote, it merely contravenes the regulations made pursuant to that vote?—A. This item strengthens the department's hands in dealing with fairs in the future.

The CHAIRMAN: Are there any further questions?

Carried.

Item 38 "Powers of Attorney".

Carried.

Items 39 and 40 "Rental payments and office furnishings".

Carried.

Items 41 and 42 "Accounting for international exchange losses".

Mr. HARKNESS: Wait a minute, Mr. Chairman, I did not get over the page.

The CHAIRMAN: I am sorry. Do you want to go back to item 40?

By Mr. Harkness:

Q. Is it under item 40 where there appears one of these cases in which a rental agreement was entered into for a building, and the building was not occupied? Is that in this item?—A. All three.

Q. All three of these cases? I remember that you reported on it previously; and what I was going to say was that it seems to me to be a bad practice and one which is wasteful of money. In this particular case it would appear that \$70,000 was expended when no return was had by the people of Canada at all

for that expenditure, because they voted this for a building which was not occupied. Now, as to your previous recommendation, I do not know when it was made, but you have made it two or three times.—A. I made it, in particular, regarding a building in St. Catherines.

Q. Has the Department of Public Works paid any attention to that recommendation, or have they just continued along as if there was no such thing?—A. It is not the fault of the Department of Public Works. It is the fault of the departments which ask Public Works to give them space. In this case a rental agreement provided that as soon as the building was ready, Public Works would be notified and it would put in the partitions. The owner notified Public Works that the building would be ready on the 1st of July. Public Works had allocated the space to various departments, but they did not indicate to Public Works for a considerable time their plan of partitions, etc., which they wanted. That was why the building remained empty so long. While it has nothing to do with this item, I believe we have been going to extremes in the Government of Canada in providing private offices. I think we will have to do as industry does, and go much more into big open offices.

Q. I think that would be very sound.—A. The usual civil servant wants to have a cubbyhole of his own.

Mr. CROLL: I think he is entitled to it, Mr. Sellar, and I do not agree with you in that respect. Consider Mr. Bryce, for example. Should he have to sit out in a public office? He has important work to do and he should have an opportunity to meditate on it for a few minutes. But, of course, if you are referring merely to stenographers, then I am in agreement with you.

The WITNESS: That is what I had in mind. When you get down the line there is always an urge. I experience it all the time. There is always an urge among civil servants to get into a room, each one for himself; and then the next step is to get a stenographer and a room for her.

Mr. ROBINSON: Even a Member of Parliament would like to have a room for himself.

Mr. CROLL: You are treading on toes there.

The WITNESS: Well, I have been treading on toes all my life.

Mr. HARKNESS: Most Members of Parliament do not get rooms for themselves, let alone rooms for their stenographers.

Mr. CROLL: You have some space here now in the new building over on Metcalfe street, the Metcalfe Building. That is a modern building. It is well laid out and well lighted. On the other hand, you have a great number of small private offices for men who are doing important work. I can see nothing wrong with that. I do not think they should be sitting out in the open, as you have said, and I do not follow you at all.

The WITNESS: In the Department of National Defence—I do not know whether the work is proceeding yet or not—I have a staff of about 15. That section has been used as a guinea pig by the Department of Public Works with our consent, to see whether or not, by means of some low partitions, we can eliminate some private offices and save floor space. They are very congested in that department. If that experiment is successful, they intend expanding it throughout the wooden buildings.

Mr. CROLL: I know that in the Income Tax office in Toronto you may walk in to speak to an assessor. There are 100 of them on the floor; and there is not a chance anywhere of being able to talk to the assessor with your being able to hear him and his being able to hear you. So you and the assessor walk out to a small office. There are about three of them; and if they happen to be all occupied, then you stand around and wait until there is one unoccupied; and during that time both of you waste your time. He has important work to do,

and your time may be valuable too. Therefore I think that people who have responsibilities of that kind should have offices to themselves.

Mr. CAVERS: It is embarrassing to the official too.

The CHAIRMAN: At which level of the service would you have them stop having private offices?

The WITNESS: There is no level. It would depend on the nature of the work and the extent to which they communicate with the public.

Mr. HARKNESS: I agree with Mr. Sellar's statement and explanation. I think there is a great deal of money wasted by people having private offices and over-grown staffs unnecessarily.

The CHAIRMAN: Just as Mr. Croll said, the lack of offices by certain officials may cause annoyance to people. I know that in each city with respect to income tax you have people who will come in with problems to discuss; and at the very next desk there will be a chap talking to another assessor and they can overhear what is being said. Therefore a man finds himself talking in public about his own private affairs, and people do not like that. But here in Ottawa, if too many clerks of Grade 1 or 2 have private offices, that may not be suitable. But on the other hand, there are a number of men who, even though they may not be deputy ministers or the heads of branches, might need to have a private office to carry on their work.

Mr. HARKNESS: As Mr. Sellar has said, it all depends on the job.

The CHAIRMAN: Yes. But someone would have to determine the question.

Mr. HARKNESS: In this particular case, which of the departments was concerned?

Mr. BROWNE: In which case?

Mr. HARKNESS: In case three, which is cited.

The WITNESS: The Department of Indian Affairs.

Mr. HARKNESS: Perhaps we might get some explanation from the people in the department which was at fault, and in that way it might serve the purpose of making them more careful in the future.

The CHAIRMAN: Surely. If you want it, just say so and we will get it. What department was it?

The WITNESS: The Department of Indian Affairs.

The CHAIRMAN: Do you want to call somebody from the Department of Indian Affairs?

Mr. HARKNESS: I think we had better wait to see how many meetings we are going to have. I would ask that it be referred to the agenda committee.

The CHAIRMAN: Item 39, case three, will be the same as the other one which was mentioned by Mr. Pearkes; it will be kept for future reference.

Mr. PEARKES: Case 2, item 31, Mr. Chairman.

The CHAIRMAN: Yes, case 2 in item 31. It also will be kept for study by the agenda committee after we are through.

Mr. HARKNESS: I am always very tender with the Department of Indian Affairs, and I am disappointed to learn that they have been at fault.

By Mr. Browne:

Q. I suppose that Mr. Sellar has seen the correspondence in connection with this, and that he probed it that far.—A. I personally have not seen it.

Q. No, I mean one of your men has seen the correspondence?—A. One of my officers had access to the files.

Q. Do they exonerate Public Works for being responsible for the waste?—A. I cannot tell you that because I never asked the question of my man.

Q. \$70,000 seems to me to be an awful lot of money to throw away. Who could explain that?—A. Public Works and Indian Affairs between them, or both of them, collectively.

The CHAIRMAN: That is already in. Mr. Harkness named case 3.

Mr. PEARKES: Do you know which department that is in?

The WITNESS: It is right here in Ottawa, Mr. Pearkes.

Mr. PEARKES: Right here in Ottawa?

The WITNESS: Yes.

Mr. HARKNESS: What is item 40, Mr. Chairman.

The CHAIRMAN: We are considering it now.

By Mr. Harkness:

Q. I think we will see that this sort of thing has been drawn to our attention before, the purchase of furniture and rugs and fluorescent lighting and so forth by the Department of National Defence, which purchasing was supposed to go through public accounts and does not; or, did not in this particular case. Now, what action do you take in cases of this sort, in addition to your report in here?—A. I just report it, sir.

Q. You just report it here?—A. Yes. I do not think that you will see it repeated.

Q. Aren't there a lot of them?—A. No, it has been kept down, sir.

The CHAIRMAN: Are you through with item 40? Items 41 and 42, accounting for international exchange losses. I assume, of course, that we are all familiar with the item. I mean, I presume that we had had this report before us for almost a year now, so that is why after waiting for a few moments I expect members to be ready within those few moments, and that is why I am calling the next item.

Mr. BROWNE: Not over a year, we haven't had it a year?

The CHAIRMAN: Well, perhaps not over a year, but since last October; it was laid on the table in the House during the fall session.

Health grants to provinces:

By Mr. Harkness:

Q. Just in connection with that, your representation would come to this, Mr. Sellar, as far as item 41 is concerned: I take it to be your view that this \$66,000 instead of being written off by the government under vote 66 should be charged up directly to External Affairs if they are going to continue this practice?—A. I think it should be recorded as a special allowance. It shows what the individual is getting.

Q. As a special allowance under External Affairs?—A. Yes. It has been shown under External Affairs. It should not be shown as a loss. It should be shown as an allowance. There is no question about it; the rouble is artificially valued when it is sold to the government of Canada at four to the U.S. dollar. Canada can't get value for them.

Mr. FULFORD: Five cents per hundred it would be, would it not?

The WITNESS: That is what I mean, it has not sufficient purchasing power. It should be reflected as an allowance rather than a loss of exchange.

The CHAIRMAN: How do you account for it?

The WITNESS: You have no option. The U.S.S.R. sells it to the government at four to the dollar; so you have no option; the men need roubles to carry on and the government has to absorb the difference. For example in the case of a largest sum, a man received 90,000 roubles. He paid \$3,600 for them. They cost the department \$22,000.

By Mr. McCusker:

Q. What do the Russians get here in Ottawa on their roubles, transferring them to Canadian funds?—A. That would be an ordinary market operation.

Q. Would they have sufficient here to off-set the expenses of our staff over there in Russia?—A. You probably have seen what I did: I read in an American paper last week about the concern in Washington over the same problem as faced by the State department.

Mr. FULFORD: I remember many years ago, I was in Russia and changed American dollars at the rate of one rouble and 89 kopeck, and the purchasing power of the rouble was less than 5 cents.

The CHAIRMAN: Are we finished with Accounting for International Exchange Losses. If you are through with that we will turn to Health Grants to Provinces, items 43 and 44.

The WITNESS: I might say, sir, that the \$61,000 that is referred to in paragraph 43 has been adjusted by the province of Ontario so it is not really before you. So far as item 44 is concerned, the province concerned has taken appropriate action.

The CHAIRMAN: War Pension Awards, item 45:

By Mr. Harkness:

Q. What is the purpose of bringing this item to our attention?—A. Because the Department of Veterans Affairs instead of doing that job has loaded it on to the audit office for the last 30 years. This is the only place where the outcome appears in the record. There is no significance to it except that the department should do the job; but by an old agreement the audit office is saddled with it. Moreover, the U.K. authorities like the reference for their records.

Carried.

The CHAIRMAN: Item 46, Acceptance of Losses in Unofficial Accounts.

Mr. HARKNESS: There is a lot of work in that too.

The CHAIRMAN: Is there anything further on items 46 and 47—Cost of Loan Flotations?

By Mr. Stewart:

Q. The suggestion there, Mr. Sellar, is that it should be written off in one year?—A. It would be better written off in one year, or amortized, the same as the rest, so that you don't have to look in so many places for the information.

Q. Yes.—A. I regard it as a question of policy for the department.

Q. Would you have any objection to having it written off in one year?—A. No sir. Do not criticize anyone because I was the one who started this amortization. This came up away back in 1931 when we had a huge conversion loan and the cost, naturally, was staggering and accounting for it was an administrative problem. I thought that accounting treatment should be in line with the commercial practice of that time; so I recommended amortizing.

Q. And it means, of course, that the account will have to be carried forward on the government books, and that is why I was wondering if it would not be worth while to revert to the system which existed before 1931.—

A. That is a question which you would have to take up with the Department of Finance. The money is spent.

Mr. STEWART: Quite.

The CHAIRMAN: Mr. Bryce?

Mr. BRYCE: I might say that our practice in this matter is to amortize those items of expenses that enter into the terms of the issue. In other words,

you can vary your interest rate and your premium and discount and things like that in setting the terms of an issue. And we amortize those things that are really part of the terms of issue; but we do not amortize those things that are other expenses that are incidental to the issue. The things that we are considering here are new under departmental consideration, and the deputy minister is studying the matter to see whether we shall continue this distinction between the two types of expenses or whether we should treat them all in the same way on the basis of the present practice. Mr. Sellar explained he was there when it started. I was not. Our rationalization at the present time is that we are amortizing those items which in fact are part of the deal.

Mr. STEWART: It would not take a great deal of time for that operation, writing it off in the year in which it is created?

Mr. BRYCE: If it is a small amount, yes.

The CHAIRMAN: Civil Service Transactions, items 48 to 54:

By Mr. Harkness:

Q. As far as item 50 is concerned, I think it is a matter of certain departments creating positions which have not been classified and approved by the Civil Service Commission and then the difficulty is that the men may work in those positions for a number of years without getting any superannuation?—

A. Yes, the crux of the problem is the legal one. There is an old order in council passed under the Civil Service Act which is within the terms of the law. Subsequently an order in council was passed which does not have the authority of that Civil Service Act behind it because it was not recommended by the Civil Service Commission. Now, there are a good many regulations made under the Civil Service Superannuation Act and one of them is this regulation which I am quoting:

(2) No period of service of an employee as a day laborer or manual worker may be counted for any of the purposes of this Act unless, in addition to any other requirements of the Act or these regulations, the employee: (a) was appointed for that period by competent authority and his classification of salary were determined in the manner authorized by law;

Now, I have no quarrel from the practical view point, over what has been done except I would hate to think that any man ten or twenty years from now may suddenly face a crisis by them saying: Perhaps you are not legally appointed and, under the circumstances, we cannot give you the superannuation you are entitled to. That is my whole concern because I think if any man believes he is going to get superannuation then everything should be done correctly as to protect him.

By Mr. Harkness:

Q. There are two ways of correct it. One would be for the department and the Treasury Board not to make those appointments and the other would be by way of new legislation covering this point?—A. By getting together with the Civil Service Commission and repealing the old order in council of 1922, putting in a new one, then certainly within the Civil Service Act everything would be fine.

Q. You do not think it requires a change to the Civil Service Act or any other Act?—A. I do not think it requires any change in the legislation. Moreover, I am not sure of the scope of the new Financial Administration Act, but I think the necessary power exists. I am bringing this comment because the individuals concerned know nothing about this possible risk they may be taking. I am hoping that everything will be done to straighten things out.

The CHAIRMAN: Would you care to comment Mr. Bryce?

Mr. BRYCE: I would say I think this is a perfectly proper point that the Auditor General has raised. We are studying it now to correct the matter.

The CHAIRMAN: Are there any further questions on Civil Service transactions?

Carried.

Loans, advances and investments.

By Mr. Stewart:

Q. On No. 54, I remember that when we were going through a schedule of bad debts last year there were quite a number of fees that were being kept by judicial officers. I notice now that the "...deputy minister of Justice decided that retention of the moneys not being permissive, all the receipts of the sheriff's office be credited to revenue."

Does this apply only to the sheriff of the Yukon Territory or to all over the country?—A. The sheriff of the Yukon Territory is the only federal sheriff. The rest are provincial officers.

Q. Those provincial officers seem to have the right to hang on to certain moneys?—A. I know what you are referring to but it is not the sheriff, it is the clerk of the court or the clerk of the peace in connection with naturalization moneys. There were very large sums owing particularly in the county of York.

The CHAIRMAN: This is the amount that was written off last year?

Mr. STEWART: Yes.

The CHAIRMAN: Are there any further questions on loans, advances and investments? Item 55?

By Mr. Harkness:

Q. I take it that this is really what you might call improper bookkeeping that you are referring to?—A. In 55 we are bringing the figures together.

Q. That is what I mean? The present way in which the books are kept for these things does not present a true picture?—A. Well, the Department of Finance would argue with me against your view. I share your view but the department does not.

Q. I think there is no doubt but that we are probably right and they are wrong.

The CHAIRMAN: Of course, if the Auditor General agrees with you. I think the Department of Finance might say something about it.

Mr. BRYCE: I really have not had notice of this question but if there is some combination of figures we have not put in this volume perhaps we should see to it that we do. We try to summarize these things in the first part of the public accounts in a convenient and understandable way, but perhaps this is one type of summary we have not done adequately and we will have to look at it. It may be in here but I am sorry I cannot tell you for sure, right off.

The CHAIRMAN: Page 18, the balance sheet of Canada, item 56.

Assets—items 57 to 74.

Item 57?

Item 58?

Item 59?

Item 60?

Item 61?

Item 62?

Item 63?

Item 64—loans to national governments.

By Mr. Wright:

Q. I would like to ask about the payment on the British loan. The British total loan is \$1,436,490,000 and repayment in the year was \$40,567,000. What proportion of that \$40,567,000 is in payment of interest and principal on the \$1,250,000,000 loan which we made in 1946, I think it was?—A. My recollection is that it was interest free—

Q. It was interest free for five years but I believe the first payment on interest and principal was due last year and there was a payment made. It runs in my mind that it was somewhere in the press shown as \$26 million. I wanted to see if that was correct?—A. Up to the 31st of December it was interest free. Then, there were discussions with the United Kingdom government as to the payment. So far as these accounts were concerned there were just three months involved—January, February, and March. The discussions had not been completed before the books were closed and, if my recollection is correct, sir, it was in the summer or early fall that an agreement was reached with the United Kingdom government and they made a substantial payment. I think the figure you gave is correct. That figure is not the 1951 fiscal year accounts, but I think your memory is right; I know there was a payment made.

Q. I know there was a payment reported?—A. Payment was made.

Mr. BRYCE: I believe the first payment was due at the end of the calendar year, 1951, and the details of the account reflects no payment made during the fiscal year under review. No payment was made by March 31, 1951—it was at the end of the calendar year.

By Mr. Harkness:

Q. The China referred to is no doubt Nationalist China?—A. Yes, sir.

Q. That is a very doubtful asset I would say—that \$49 million?—A. You will have to ask the Department of Finance to answer that question.

Mr. PEARKE: External Affairs might help.

The CHAIRMAN: It is a \$64 question.

By Mr. Harkness:

Q. Indonesia you say did not owe anything on principal. Did they pay anything on interest or are they in default on interest?—A. No, the first instalment of principal matured on the 8th of April, 1951.

Q. Of principal?—A. And interest. You might say there was accrued interest.

Q. There was no default?—A. There was no default.

The CHAIRMAN: Are there any more questions on item 64?

Item 65—loans to provinces?

Is nobody interested in the provinces and their debts?

Item 66?

The WITNESS: This is a little item that the Financial Administration Act may take care of and I hope action will be taken to write off this small amount. There is no hope of ever getting it.

The CHAIRMAN: Item 67?

The WITNESS: The reason that item 67 is in here is because, while the loan has existed for a great many years, this was the first year it was brought into the accounts. Therefore, I thought I should make some reference to it. There is nothing objectionable to it whatsoever.

The CHAIRMAN: Item 68, loans to municipalities.

Item 69, subscriptions to international monetary fund and international bank?

No. 70, miscellaneous loans.

No. 71, sinking fund and other investments held for retirement of 1943-63 Newfoundland stock.

No. 72, sundry suspense accounts.

No. 73,—

Mr. PEARKES: May we have some explanation on that?

By the Chairman:

Q. Would the Auditor General care to comment?—A. This is the matter, sir, that Mr. Bryce was referring to in the introduction, namely, Nationalist China owing various sums of money that had matured for payment. They did not have the money to pay for them. They had procured amongst other things bridge spans in this country for shipment to the mainland of Asia which they could not ship. The government took them over. While they cost \$1,206,000, they have now all been sold with \$746,000 realized from the sale of those spans.

By Mr. Pearkes:

Q. Sold in Canada?—A. Sold in Canada, sir. The result is, as Mr. Bryce said, there is a net loss on the transaction but the government did recover something of this loan as a result of this operation.

Q. It seems that we were charging China a good price for them?

Mr. BRYCE: Perhaps I may say a word upon that. These were bridge spans designed for certain particular crossings of rivers and they had to be cut up and used for crossings for which they were not designed.

The CHAIRMAN: No. 74, reserve for possible losses on ultimate realization of active assets.

By Mr. Harkness:

Q. On that item, Mr. Sellar, I see you say at the end:

As no particulars were provided by the Department of Finance as to the assets items making the reserve expedient, the justification for the \$75 million charge against 1950-51 expenditure was not established in the audit.

Now, I presume when looking back at it, that the vote for \$75 million was put through the House?—A. No.

Q. There was no vote for this?—A. No.

Q. Then, under what authority was the \$75 million put in?—A. Starting back about 1941 or thereabouts, the Minister of Finance each year subtracted a certain amount from his assets on the ground that if they were all realized a certain loss would be taken. Therefore, to be realistic he should make a reduction in his assets in establishing his net debt.

Q. In other words, that \$42 million we are talking about for the China loan should be written down?—A. Well, whether they do that or not I do not know, but anyway that was done. Now, in more recent years the amount has been increased to \$75 million a year. It leads to a realistic valuation of assets but as an auditor I feel that before I can accept that figure I should know what goes into making up \$75 million because it seems to me, as an ordinary man, it is impossible that the bad debts of each year could be exactly \$75 million.

The sum is reserved and is shown in the balance sheet of Canada. You asked a question on whether there is a vote. There is no vote, but under the new Financial Administration Act, the Minister of Finance is given the power to set up such reserve as is necessary to reflect the true state of the assets. You refer to China, there are also various other governments. The Minister of Finance cannot disclose what he regards as a bad debt from a government. He has to carry that as a sort of concealed thing.

Q. In other words, you have always proceeded on the public assumption that it will be paid?—A. Yes. I feel that as an auditor I have got to draw to your notice that I was not able to establish that \$75 million represented a diminution in the value of the assets for that year.

The CHAIRMAN: Would the Department of Finance care to comment?

By Mr. Harkness:

Q. As the money actually was written off last year and the total is now nearly \$400 million, what happened when the \$75 million was put in 1950-51—and it would be the same, I presume, in 1951-52—was that the net surplus presented to us was thereby reduced by that amount?—A. Yes, sir.

Q. In other words, the surplus would have been \$75 million more each year if this had not been written off to this reserve fund?—A. Yes, sir.

Q. Where is that reserve fund held? Is that held in a separate fund?—A. It is a bookkeeping entry.

Q. A pure bookkeeping entry?—A. Yes, sir.

Q. What would happen to the \$75 million which is written off here? The money was actually taken in there some place.—A. If they want to write off something physically, that is an actual transaction, they come to parliament for the authority. The first big charge in this regard—it was several years ago, I think it was in 1947, was when an adjustment was made with the western provinces with respect to the old relief amounts of the thirties. You will recall that the debts of the provinces were cut in two for direct relief, etc. The legislation authorizing that adjustment stipulated that the amount written off be deducted from this reserve that the minister had set up in his accounts.

We had a few cases more recently where the Department of Justice took the view that when it decided moneys could not be collected in court proceedings for one reason or another and they abandoned the suit, their decision had the same effect as an authorization from parliament for that write-off. Small amounts have been taken off on that account. But the big one was in 1947, I think. The Department of Finance has been scrupulous in observing the requirement, sir, that they have the actual consent of parliament before they make a real write-off, that is, relieving the debtor of his indebtedness.

Q. But the point I was trying to get at a minute ago was, revenues were collected and revenues were expended. Now, what was left over would be surplus. Now, that surplus as far as the figures we got was concerned was less by \$75 million, by the amount of this figure here. Now, my question was, what happened to the \$75 million? Was it left sitting in the Consolidated Revenue Fund or where did it go? Maybe Mr. Bryce can tell us.—A. It is reflected as an expenditure but, as I say, it is not a cash expenditure.

Q. My question merely is where does it go? Does that go into the Consolidated Revenue Fund or what happens to it?

Mr. BRYCE: Well, sir, the primary point, I think here, is to distinguish between our bookkeeping accounts and our cash receipts and disbursements. In terms of the bookkeeping, if we had not charged the \$75 million to reserve, we would have shown a larger budgetary surplus because our expenditures would have been recorded as less by that amount and our net debt would have been less by that amount since the net debt is the total liabilities less the active assets and in getting to the active assets we take off his reserve. That is the bookkeeping aspect of it.

In regard to cash, it has no effect because our cash position depends only upon our cash receipts and our cash disbursements and whether or not we do anything to the reserve does not alter our cash position at all and, therefore, it is really necessary to distinguish the two types of calculation. As far as the cash situation is concerned, it would not have been altered one whit whether we had put up \$75 million or \$175 million or nothing. Does that answer you?

Mr. HARKNESS: Yes, I see what you mean, all right. The disposition of the cash, actually the cash collected that is actually sitting in the Consolidated Revenue Fund and the figures that you show on your budgetary surplus have no relationship to the cash that is actually sitting there?

Mr. BRYCE: I would not say they had no relationship, sir, but in both our expenditures and our revenues and in the loans we make and the investments we make and in our receipts, there are certain items that are not actual cash items; they are bookkeeping charges and it has been the practice of the Minister of Finance in recent years to try and make clear both in the budget in advance and in the public accounts afterwards—in the introductory portion—to try and make clear the distinction between the ordinary budget charges, that is to say, our bookkeeping accounts which show where we are getting in on our debt position and our assets and liabilities on the one hand and our actual cash transactions on the other.

Naturally, if our revenues go up to an unanticipated degree, that increases both our revenue from the budget point of view and our revenue from the cash point of view, so that will improve both. If our cash expenditures go up or go down they too will affect each of them. The great majority of our transactions enter the same way into both sets of accounts but these bookkeeping transactions only enter into the one set of accounts and they do not affect the cash situation.

So when we write down the net value of our assets in this way it does not give us any more money in the bank. If it did, it would be perhaps a temptation at other times to secure money by that means.

Mr. STEWART: But what you do really is to increase the figure of net debt by the amount of this reserve?

Mr. BRYCE: Yes, sir, we do, because we feel that in establishing what our net debt is we should be cautious in valuing our assets and, as the Auditor General explained, there are difficulties involved in trying to show a discount, if you will, against individual items in our balance sheet and so the minister shows it against the whole.

By Mr. Stewart:

Q. May I ask the Auditor General as the auditor for the government of Canada, does he consider that this reserve of almost \$400 million is adequate or more than adequate or inadequate, considering the assets which we have?—

A. I have never been able to get from the Department of Finance the make-up of the annual write-down of \$75 millions from year to year. I have written letters asking for the information and I have never been able to get it. Therefore, I cannot answer your question.

Q. Well, we have got active assets of \$5,800,000,000 roughly against which we have this \$395 million. Have you considered the value of these assets in detail? Do you think they are fairly stated in the balance sheet?—A. There are \$800 millions at least of Canadian National Railways notes and debentures. Now, the value put on the asset is the face value of the notes or whatever we hold from the railways. Whether we could realize \$800 million from the Canadian National Railways, sir, I cannot answer. You face the same problem when you take loans to the provinces. If a province said, "We will not pay," I do not know if the government of Canada could collect or not. They cannot be sued in the courts. You cannot seize a province. Therefore, it is a debt of honour and you have to take that at face value until there is repudiation by somebody. That is all I can add in the way of answering your question, sir.

By Mr. Browne:

Q. Why do you say a province cannot be sued?—A. You cannot sue the Crown without its consent.

Q. Well, there are several actions in courts between the Attorney General of Canada and the Attorney General of Manitoba, for instance.—A. With consent.

Mr. McCUSKER: There is a statute which however has not yet been promulgated by which you can sue the crown without consent.

The WITNESS: Let us go further afield then, sir. How could we sue, let us say, the government of France or the government of Belgium without their consent? I am just using them to illustrate. I am not saying anybody will repudiate, but that is just to explain. However, to come back to the question, I cannot say whether \$400 million is adequate or excessive.

By Mr. Wright:

Q. I understood you to say that when a province owes a debt you have no way of collecting it. Is it not a fact that certain debts the provinces owed have been deducted from provincial grants from the dominion government?—A. Not from the subsidies fixed by the British North America Act.

Q. But from other grants?—A. I think by agreement or otherwise there have been deductions made. I cannot be specific because I cannot name a case.

Q. It seems to me in certain cases where the province owes money to the dominion government in Ottawa, deductions have been made from grants that the dominion government have been paying to the provinces, that is, outside of the statutory grants under the British North America Act. They have used that as a means of collecting debts.—A. I am sorry, Mr. Wright, I cannot help you because I do not know.

Mr. BRYCE: I know there have been arguments as to the right of set-off in some of these cases, but I would hesitate to speak from memory because they are complicated questions and I have not had anything to do with them for four or five years.

The CHAIRMAN: The next item, liabilities, item 75, floating debts.

The WITNESS: That is inserted for information purposes.

By Mr. Stewart:

Q. Have you any information at all, or have you any idea, Mr. Sellar, what the approximate amount would be of outstanding cheques in every month during the financial year? Is \$60 million a representative amount or is it something that is very much higher than exists in other months?—A. At the end of the month of April, sir, it would be less. At the end of May it would be much less, but on the whole I think you can assume that the March 31 figure is approximately 20 per cent higher than it would be at the end of other months. If you want the actual figure I will get it for you.

Q. No, no.—A. But my expectation is that it is about one-fifth less during a good working month.

The CHAIRMAN: Item 76.

Mr. STEWART: Has any consideration been given to writing off these amounts? Probably I should ask Mr. Bryce that question.

The WITNESS: That again, sir, is put in my report on account of the expected legislation that has since gone through parliament giving a way to clear up these little items. It is just to tidy up the balance sheet; that is all that I am interested in.

The CHAIRMAN: Item 77, insurance, pension and guarantee accounts.

Carried.

Item 78.

By Mr. Harkness:

Q. Is that the amount of the principal, you might say, of the insurance or the annuity contracts entered into, or is that the amount which is actually what the government has now become liable for?—A. That is the amount that the government has received plus the amount that the government has credited to make good the deficiency in the expected amounts that have to be paid under annuities that are in effect, not where the individual is receiving the annuity.

Q. Not where he is actually receiving it? Then this does not contain any provision of an actuarial nature for the payment the government will have to make?—A. Speaking subject to correction, my recollection is that each year a compilation is made of what additional amount is necessary to honour paid-up annuity contracts—I think they describe them as “vested”. A sum is added each year on account of such contracts, but the computation does not take into calculation contracts on which contributions are still being paid, for example, on the couple I’ve taken out on my kids. The annuities branch has not, as yet, made any calculation as to what such contract agreements will ultimately cost.

Q. That is the point I am getting at. There is no actuarial figure of what they may have to pay including this?—A. No, sir. As I say I speak subject to correction. There are others more up to date on the subject than I am.

The CHAIRMAN: Item No. 79.

By Mr. Browne:

Q. The government pays in \$75 million in a lump sum like that in the past couple of years. Can it take that money out again?—A. Well, it is a bookkeeping account of course. It is not actually cash. I doubt if they could reduce it by that without the consent of parliament, parliament having appropriated it for that purpose.

Q. But has parliament appropriated it? Has it not been done by the Minister of Finance?—A. No.

The CHAIRMAN: It is covered by vote 587.

By Mr. Browne:

Q. There is a formal vote in the supplementary estimates but the adjusting is done by bookkeeping before it is voted?—A. No.

Q. After the vote?—A. After the vote, yes.

Q. And you think it can be taken out?—A. No, sir, I do not think it can be taken out without the consent of parliament.

Q. May I ask Mr. Bryce’s opinion on that.

Mr. BRYCE: Frankly, Mr. Chairman, I must confess I never thought of that. There is no cash there, it is only a liability on the balance sheet. Whether we could at some point reduce that liability in order to improve the appearance of our balance sheet—I suppose there is no statutory barrier to doing so but it would not get us any money and it would certainly be a very visible means of reversing the action which the government thought sufficiently necessary to ask parliament for the appropriation.

Mr. BROWNE: I notice the balance sheet contains \$189,000,000 in that account. Is that right?

Mr. BRYCE: Yes.

Mr. BROWNE: Do you know what the actuarial liability is of that fund?

Mr. BRYCE: Very much larger, sir. The Minister of Finance gave the figures in the House at the end of March and they are the most up-to-date figures we have had.

Mr. BROWNE: This amount is really behind, then.

Mr. BRYCE: This amount is really below the actuarial valuation.

Mr. BROWNE: And it is possible it will keep on supplying large amounts till they get it up.

Mr. BRYCE: It was indicated that is the policy to be followed.

Mr. HARKNESS: This \$189,000,000, I take it, consists of the contributions which have been put into the Consolidated Revenue Fund by civil servants plus the \$75,000,000.

Mr. BRYCE: Plus the contributions made by the government in the past and the interest on the fund.

Mr. HARKNESS: And that, including the \$75,000,000, only comes to \$189,000,000, does it?

Mr. BROWNE: Where does the interest come in?

Mr. BRYCE: The interest is paid on the balance in the account.

The WITNESS: Fixed by statute.

By Mr. Harkness:

Q. Do you consider that does not give a proper picture? I take it from what you say down here that you more or less recommend that that amount could show the contributions received, the interest on the amount of such contributions, and the actuarial calculated value of the pensions. Can you give us an idea of what that amount might be?—A. No, sir.

Q. You have not calculated it at all?—A. My approach is this: The accounts of the Government of Canada are operated on a cash basis, not the accrual basis, therefore liabilities of this nature should be computed so that they are realistic and not conjectural. However, I might say that the Speech from the Throne gave notice of an amendment to the Superannuation Act at this present session, and I think we should see what the legislation includes. At the time when I wrote this, I had no idea that the Act was going to be amended or that the minister would recommend this year that a very large sum be added.

The CHAIRMAN: Item 80?

Carried.

Item 81?

Carried.

Item 82 "Sundry suspense accounts"?

By Mr. Pearkes:

Q. Regarding item 82, I take it that the bulk of this \$175 million is money which is being paid by the NATO countries towards the arms and equipment which was sent over to Europe during the period under review?—A. No, it is not being paid by them.

Q. It is the value of their equipment?—A. Yes, it is the value of their equipment.

Q. And that has been allocated?—A. There was \$195 million approximately of equipment made available to them; \$19 million, or \$20 million for convenience, worth were procured in the form of new equipment in Canada to replace it. Therefore, the net amount charged against this account at the year end was \$175 million. At the same time, there were outstanding contracts of about \$120 million for replacements of that equipment.

Q. And articles which are sold in Canada or articles sold on repayment, or something like that would not figure into this account?—A. No, sir.

Q. It is purely a NATO account?—A. This refers to equipment for a division which was given to the Netherlands, to Italy, and to Belgium, also to the twenty-five pounders which were given to Luxembourg and to the \$32 million of anti-aircraft guns. That all goes to make up your \$195 million.

Q. The principal item led me to believe otherwise.—A. No, it is related purely to this.

The CHAIRMAN: Item 83?

Carried.

By Mr. Browne:

Q. To what province is the federal government indebted under this item 83? Would it be all the provinces, or just Ontario?—A. May I give you the exceptions?

Q. Yes, if you please.—A. Ontario and Quebec are the two chief ones. I am not sure whether or not we owe Newfoundland a little. From my figures here I am not exactly sure; but Ontario and Quebec are out entirely. I do not believe Newfoundland has a corporation tax.

Q. Is that so?—A. I may be wrong. I have a gap here in my notes as to this, but I will check on it and let you know.

The CHAIRMAN: Item 83?

Carried.

The WITNESS: That is another little item which I thought should be cleaned up.

The CHAIRMAN: Item 85 "Funded debts unmatured \$15,027,000,000"?

Mr. WRIGHT: On item 81, it says: "On April 1, 1950, the premium was reduced from 10 cents to 2 cents for each \$100 of security . . ."

Who pays that premium, the individual or the department on his behalf?

The WITNESS: The department sir; and this year the department does not pay anything. We received new regulations the other day telling us that there is to be free insurance.

The CHAIRMAN: I think we have covered a substantial amount of ground today, and before we enter upon the various other audits, such as Canadian Arsenals and so on, if it is agreeable to the committee, I would suggest that we adjourn, unless the committee wishes to start this and go on past six o'clock, which would mean the end of the meetings. Is it agreeable to the committee to adjourn?

Agreed.

We shall adjourn now until Tuesday next at 4:00 p.m.

Canada, Public Accounts, Standing Committee
1952

HOUSE OF COMMONS

Sixth Session—Twenty-first Parliament, 1952

Government
Publications

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

CHAIRMAN—MR. L. PHILIPPE PICARD

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

TUESDAY, MAY 27, 1952

WITNESSES:

Mr. Watson Sellar, C.M.G., Auditor General.

Mr. R. B. Bryce, Assistant Deputy Minister of Finance.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1952



ERRATUM

The minutes of proceedings of Tuesday, May 6, 1952, at page 5, paragraph 7 thereof, should be corrected to read as follows:

Mr. Boivin moved that the committee recommend that its quorum be reduced from 15 to 10 members.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, ROOM 430,

TUESDAY, May 27, 1952.

The Standing Committee on Public Accounts met at 4.00 o'clock p.m. The chairman, Mr. L. Philippe Picard, presided.

Members present: Messrs. Anderson, Ashbourne, Benidickson, Boisvert, Browne (*St. John's West*), Cloutier, Croll, Denis, Fleming, Harkness, Jutras, Kirk (*Digby-Yarmouth*), Macdonald (*Edmonton East*), Major, McCusker, Pearkes, Picard, Sinnott, Stewart (*Winnipeg North*).

In attendance: Mr. Watson Sellar, Auditor-General; Mr. R. B. Bryce, Assistant Deputy Minister of Finance.

The Committee considered the Auditor-General's Report for the fiscal year ended March 31, 1951.

Mr. Watson Sellar's adjourned examination was resumed.

Mr. Bryce was heard briefly on several matters arising out of Mr. Sellar's examination.

At the conclusion of the testimony the witness and Mr. Bryce were thanked by the chairman and they were retired.

At 5.30 o'clock p.m., the Committee adjourned to meet again at 4.00 o'clock p.m., Tuesday, June 3.

ANTOINE CHASSÉ,
Clerk of the Committee.

EVIDENCE

MAY 27, 1952.

4:00 p.m.

The CHAIRMAN: Order, please. Gentlemen when we adjourned last week we had reached that part of the Auditor General's report which deals with miscellaneous audits, page 24 of the report. As we have done in the past I will call the items one by one: army benevolent fund, item 86:

Mr. Watson Sellar, Auditor General of Canada, called:

By Mr. Pearkes:

Q. Mr. Chairman, in respect to that I notice a sum of \$183,854 has been paid out in disbursements. That amount is well within the interest earned on the capital of the fund. But I also noticed the administrative costs amounted to \$63,100, which is about $\frac{1}{3}$ of the amount of the disbursements. It seems to me that is extremely high administrative cost for such a small disbursement. I am not an authority on these matters. I would rather like to know if that is so, and I would like to know how that compares with the naval and R.C.A.F. benefit funds, which also have the same objective in view as the Army Benevolent Fund has?—A. Well, Mr. Chairman, you will have to bear in mind that it is impossible to make a fair comparison between the three bodies because the Army Benevolent Fund is a statutory fund and the other two are private corporations; therefore, the Army Benevolent Fund is required by the statute to so administer the affairs that the fund is not exhausted until 50 years have elapsed. Therefore, they have to be very careful in disbursement of money; and, secondly—and this is the crux of the problem, gentlemen—the Act states that no grant is to be made by way of relief from the fund where relief is at the time of application available from dominion, provincial or municipal governmental sources. That means that before they can give any assistance they have to see whether the province or the municipality or the Department of Veterans Affairs have any money available and that adds to their administrative costs.

The headquarters administrative cost, that is, the board itself is quite modest. While the members are entitled to a per diem allowance of \$25 a day as a rule they never draw that for more than two days a year so that there is no undue expense there. The chairman is entitled to a per diem of \$40 a day, but he draws that on only a very few days of the year.

Now, the Act does require that there be a provincial committee in each of the provinces and also one in the United States, one in the United Kingdom, one in the Yukon and, if desired, one in the Northwest Territories. These things all going together add up in a small way to the administrative costs. So I agree with you in \$183,000, \$60,000-odd for administrative costs the ratio is wrong, but I cannot give you the answer how they can cut it down on account of their set-up.

Q. Isn't some of the work possibly—I do not know whether it is a fair question to ask you—carried out by the Department of Veterans Affairs and by the officials of the Department of Veterans Affairs?—A. Veterans Affairs and

the Legion, sir. You couple the two of them together because the committees also have a representative from the Legion and he is quite active and a Veterans Affairs man who is always active too.

Q. And that work from the point of view of the Legion is generally of a voluntary nature?—A. Yes.

Q. And the Department of Veterans Affairs is an official department. I still do not see how they could get the administration expenses up to \$60,000 when you have such generous action on the part of the chairman and the board here, and when a great deal of the work is already carried out by the Legion and the Veterans Affairs. It seems to me an amazing situation.—A. Well, sir, I can only add this. General Murchie, as you know, is the chairman of the committee. He has been concerned with that problem for a considerable time and in fact he invited my office last year to make a study of his organization. I declined, saying that we were equipped to handle his accounts but we were not good people to have for organization of work and we suggested that he have the Civil Service Commission make an investigation in that regard. I do not know whether they have done that. More recently his concern has been with respect to the expenses in arranging for assistance when they have to explore the other avenues of relief. He wants to try to cut that expense down. That involves a good deal of travelling, I understand. But if you wanted this, I think, sir, you should call General Murchie.

Q. I do not know whether that is permissible as far as this committee is concerned, but it does seem to me in the interest of the veterans of this country, some of whom are looking for assistance and, as you say here, there have been 1,400 cases where they have been helped, not by any great amount but by these outright grants, and I know some cases where it has been a great help to individual veterans and it does seem to me a pity that the moneys which have been collected originally by canteen accounts, I believe, and donations, should require such a heavy expenditure for administration. I cannot help feeling there must be some simpler way, particularly when there is such a fine example set by the three members at the head of it who, as you say, arrange never to collect more than two days' expenses a year. Well, one can only commend that and yet somehow or another \$63,000 is eaten up. I feel there should be some explanation to it if that is the sort of thing we are supposed to look into.

The CHAIRMAN: We have already set aside two or three items on which we were going to have further information when we were through with the Auditor General and Mr. Bryce and were going to get some witnesses and so, if you so move we can do that on item 86 to complete the study of this item and ask the witness we want.

Mr. BENIDICKSON: I think that is a very important point that General Pearkes is making, Mr. Chairman. I am just wondering, though, it goes through my mind that we had the canteen fund committee not long ago and I have an idea they discussed this question of benevolent funds as well. I wonder if that is so and whether we ought to probably review that evidence.

The CHAIRMAN: You mean that evidence has been available before another committee?

Mr. BENIDICKSON: Well, not a current committee. There is no doubt we could look into it further again, but I was just wondering to what extent this was discussed at the time the canteen funds legislation was before the House not many years ago.

Mr. FLEMING: Isn't this subsequent to that in any event?

Mr. BENIDICKSON: Oh, there is no objection in going into it on my part. I was just saying there might be background of information as to the set-up here and that I think we should look it up.

The CHAIRMAN: We can ask the clerk to take a note of this item. I think it is an item that can be kept in mind after we complete this study when we are considering the three or four other items we have set aside for calling witnesses. So, the clerk will take note of this item.

Mr. PEARKES: That is perfectly satisfactory to me.

Mr. BENIDICKSON: Also the claims seem to me to be rather small and the award is very small and on investigation seem to be around \$50 a case.

Mr. PEARKES: They are very small claims paid. Well, you can easily find out the average if you divide \$183,000 by 1,400. That will tell you the average claim.

The WITNESS: Mr. Chairman, in view of the remark made by General Pearkes in respect to the chairman and the two members of the board, I think it should also be stated that while the provincial committees are entitled to \$15 a day none of them take anything.

By Mr. Pearkes:

Q. I still say where is that money going? It can't all go in postage stamps.—A. But you were paying a compliment to the chairman and the members of the national board. I thought I should also present the situation with regard to the others.

Q. It still presents a greater problem.

The CHAIRMAN: Are we through with questions to the Auditor General on item 86? Then, we will go on to Canadian Arsenals Limited, 87.

By Mr. Fleming:

Q. May I ask a question generally about this and other Crown corporations? In the light of the budgetary proposal to place Crown corporations on the same basis as far as the payment of corporation tax is concerned, as other corporations, is it going to involve any change at all in their bookkeeping or method of keeping their accounts that you foresee at all, Mr. Sellar?—A. Assuming the Canadian Arsenals comes within the scope of the new legislation—

Q. Chances are it won't because it shows a deficit.—A. But assuming it comes within the scope, it will change their bookkeeping because they had never set up a reserve for depreciation. I have urged that before this committee on several occasions in the past and that will necessitate them putting up that cost of operation item into their account.

Q. Up to now they have just been operating as far as their operating statement is concerned on a cash basis?—A. On a cash basis and they received a very large quantity of supplies after the war which they have never valued and taken into their balance sheet. They took them in only as they consumed them. It will involve a change for them. Polymer makes no change, and Eldorado and none of the others. It is Canadian Arsenals who is the only one that I know of that it will affect.

Mr. BRYCE: Perhaps I might just mention that Canadian Arsenals is not one of the proprietary companies so it would not be affected by the budgetary proposals. It is not listed as a proprietary but as an agency corporation.

By Mr. Browne:

Q. For whom do they manufacture this ammunition—is it for National Defence?—A. Some of it is for National Defence but they have also taken orders in the past for various other countries, particularly India and Pakistan.

The CHAIRMAN: Any other questions on 87— Canadian Broadcasting Corporation, item 88, page 25.

By Mr. Fleming:

Q. You draw attention, Mr. Sellar, here among other things to the action of the board of governors in giving away certain government property. You make the statement that:

A presumption is that the Governor in Council would have concurred in the action taken, but the files indicate that the corporation acted independently although not the owner of the property donated.

On what do you base that presumption—just that it was a good cause?—A. Yes, I base that on the fact that here was a disaster in Rimouski, a serious disaster. Here were these additional doors as far as the Canadian Broadcasting Corporation was concerned. It was a reasonable thing to assume that the government would have said, “By all means make these things available to the people of Rimouski.”

Q. Did the government at any time ever do that?—A. I do not think anybody ever thought of consulting them. This building in Montreal is owned by the government, presumably shortwave, but is operated by the Canadian Broadcasting Corporation.

Q. Yes, the property is the property of the government; it has never been vested in the Canadian Broadcasting Corporation?—A. The Canadian Broadcasting Corporation is paying rental for space in it.

Q. And charging back portions, so far as the International Shortwave Service is concerned?—A. But as far as that is concerned, the government is getting a good deal there. I do not think the government is being exploited in that way.

Q. No, I did not intend to suggest that. This point you have made about taking care of the hospital and medical and nursing expenses of an official of the corporation, would you enlarge on that subject—I am not going to worry very much about details in this particular case because I did make some inquiry about it before the Committee on Radio Broadcasting last December, I think it was, but I am rather interested in it as to the general possibility with respect of illness overtaking the public servants when engaged away from home in the course of duty.—A. Mr. Chairman, I think Mr. Bryce would be a better man to answer that because the Treasury Board makes the regulations.

Mr. BRYCE: Well, Mr. Chairman, the Auditor General has summed up in his paragraphs here the general policy that is followed in the Civil Service, at the direction of the Treasury Board which is to the effect that in principle the government does not pay from public funds those expenditures which, if the civil servant took ill at home, he would be expected to pay himself. We have recognized, however,—the Treasury Board has recognized, that when a man takes ill away from home in travelling that he may have certain hospital expenses that he would not have had at home because he may have to go to a hospital whereas at home he could be treated in his own home. And for that reason the board has authorized the deputy heads in charge of departments to approve hospital expenses where they think they arise out of the fact that the employee is on travel status up to an amount of two weeks. Now, the regulations do not provide for any amount in addition to that. Now, the case here, of course—

Mr. FLEMING: Excuse me a moment, do the regulations not provide for the payment of any doctor's fees or nursing fees? Is it just the hospital?

Mr. BRYCE: Just the hospital.

Mr. FLEMING: Then you want to make a comment about this particular case?

Mr. BRYCE: I wanted to say the Auditor General has brought out a somewhat different practice followed by the Canadian Broadcasting Corporation in its own corporate practice.

Mr. FLEMING: I presume the corporation is not bound by the practice of the government?

Mr. BRYCE: No, sir.

Mr. FLEMING: It has an unfettered hand in that respect?

Mr. BRYCE: That is regarded as part of the ordinary management of the corporation.

Mr. BENIDICKSON: I notice reference being made to the C.B.C. getting a fee of \$110,000 for administering the international shortwave service. Has the C.B.C. been receiving a fee on a similar basis for some years past?

The WITNESS: Yes. It has been the same basis ever since it started.

Mr. BRYCE: I think it has been the same rate. It has received a percentage rate on the costs of operating the service—whether that percentage has changed at all I must confess I am not too sure.

Mr. BENIDICKSON: This is based on a particular percentage of expenditure?

Mr. BRYCE: Yes, sir. It is 5 per cent. I think, too, that the Auditor General's office investigated the actual cost for us some years ago and suggested a rate.

The WITNESS: In that regard we are requested by Treasury Board to examine the claim of C.B.C. before it is paid.

The CHAIRMAN: Are there any further questions on the Canadian Broadcasting Corporation? If not, we will go on to item 89, Canadian Commercial Corporation.

By Mr. Harkness:

Q. In this I see your net surplus account amounted to \$804,000. Where would they get this \$804,000 surplus from?—A. They are entitled to charge a commission on all contracts they place for other governments. They have placed very large contracts over the years for international organizations and so on. They are entitled to charge a commission on those.

Q. I understand from what you have got in here before that they had operated at a loss including these sums of \$47,000. They got something from the United States government of about \$51,000 which would leave them with \$4,000 only. I was wondering where the surplus came from?—A. In the year they had \$35,000 from other governments.

Q. In addition to the transactions you have noted?—A. Yes.

Q. And the surplus came from them?—A. Yes, and of course this is accumulated, too.

The CHAIRMAN: Are there any further questions on Canadian Commercial Corporation?

The Canadian Overseas Telecommunication, item No. 90.

By Mr. Harkness:

Q. You say there they had an excess of income over expenditure of \$87,000 odd, and that this sum is surrenderable to the consolidated revenue fund. When are funds of that nature actually surrendered?—A. The financial year of this corporation ends on December 31. It held that money in its books as at December 31, and between then and March 31 it paid that amount over to the Department of Transport. You will find the details at page Z-66.

Q. The fact that you say it is "surrenderable" indicated to me it was still being held and I wondered whether they were blocked up there?—A. I

report on their balance sheet as of that date and they surrendered it later. You might see in there that I refer to the fact they had not come to an agreement with the Marconi people. They have since come to an agreement.

Q. Is this corporation on what you might call a profit basis?—A. Yes, sir.

Q. In other words this surplus of \$87,000 odd is likely to continue?—A. It was larger in the next fiscal year.

Q. It will increase rather than decrease?—A. We hope so, but in due course they will have to spend quite a lot of money in bringing their plant up to date.

Q. They will get that money as a capital grant from parliament?—A. That depends. They have a capital grant they can draw on still of \$1 million odd in the capital grant you made them. They are accumulating certain reserves from depreciation; but they will possibly get a capital grant and will be able to finance quite a bit out of their reserves.

Q. It is a good running business you might say?—A. We are in a strange position there. This company gets business from the Canadian Pacific Telegraphs but it does not get it from the Canadian National—that is under a different contract.

By Mr. Browne:

Q. The Auditor General says: "At the year end, agreements as to value had been reached with Cable and Wireless Limited . . .". Is there any reason why the value should not be inserted there?—A. I have not got the figures in my head.

Q. Well, have you got it in your book?—A. I think it is in the next year's accounts. No, sir, I will have to bring that breakdown for you.

Q. Well now they have been operating for the Canadian Marconi Company before buying out their assets?—A. No, this is a new company. The government just set it up.

Q. Canadian Overseas Telecommunications?—A. Yes.

Q. Last year?—A. Two years ago.

Q. They bought over this Cable and Wireless Company in Harbour Grace, Newfoundland, and now they have bought over the Canadian Marconi interests?—A. They expropriated it at the same time.

Q. At the same time?—A. Yes.

Q. And just finished it?—A. They were going to the Exchequer Court and then Marconi suddenly reversed themselves and accepted the company's offer.

Q. You have not got those figures here?—A. No, but it is in the next year's report. That is already before parliament—it has been tabled.

Q. It was up the other day but I do not think it was tabled?—A. Yes, sir.

Q. Marconi?—A. No, Canadian Overseas Telecommunications Corporation. They have tabled their report for 1950-51.

Q. Yes, but I was thinking of the contract with the Marconi people.—A. Oh, I do not know about that.

The CHAIRMAN: Item No. 91, Canadian Patents and Developments Limited.

Mr. HARKNESS: This seems to be a company which you report has considerably more in the way of cash reserves than it requires for its operation. To whom would that excess cash go back—to the consolidated revenue fund or to the National Research Council, and what would be the means of taking or ordering it back—of getting it back?—A. Under the new Financial Administration Act, sir, there is a general power given to a minister over a company or to the Minister of Finance to seize excess amounts on hand. That part of the Act has not yet been proclaimed so the money is still with it.

In answering your question, whether it should go to National Research Council or not I would have to check back and find the source of the funds.

Q. It would go back to the original source?—A. Not necessarily.

Q. You say the source of the \$296,000 was the National Research Council?—A. Yes, but I mean the source of the money within the National Research Council. It might have had a contribution from some industry. They receive special donations and so on and I would have to verify that.

Q. As things stand until this Act is proclaimed what means is there of repossessing this excess cash?—A. A matter of negotiation between the Minister of Finance and the Minister of Trade and Commerce.

Mr. CROLL: I will bet on the Minister of Trade and Commerce.

Mr. HARKNESS: You do not think the cash will be surrendered?

Mr. CROLL: I will bet on him.

By Mr. Browne:

Q. This is a very small company?—A. It was created, sir, for a very useful purpose. As you know, under the Research Act, whenever an invention is made by a scientist in the course of his working time, it becomes the property of the Crown. The Research Council Act permits a share of the royalties to be paid to the individual. This company was set up to administer those royalties and to make agreements so that we would get more money in from them. That is the purpose of it—and it is a very small organization.

Q. Has it got separate offices?—A. I think you can make it singular; I think it is all in one single room.

Q. Where is it located?—A. Down at the National Research Council building.

Mr. HARKNESS: There would be one or two employees, I suppose; and the chairman of it would be an official in the Department of Trade Commerce?

The WITNESS: No. He is on the payroll of this company.

The CHAIRMAN: "Canadian Sugar Stabilization Corporation" item 92.

Mr. HARKNESS: I gather from what you said here that this corporation has nothing to do any more, and that it has more or less wound itself up. Is that a fact, or is it still in operation to this extent, that it has a staff, and so on?

The WITNESS: It has no staff. I am not sure whether I have signed a certificate to the Department of the Secretary of State for the surrender of the charter, but it is a company with respect to which we do not think we have any audit function to perform this spring.

Mr. BENIDICKSON: This is not the organization through which the crown reimburses civil servants for particularly noteworthy discoveries, and pays out patent revenue which the crown gets because the inventor was an employee?

The CHAIRMAN: You are back on item 91.

Mr. HARKNESS: That is a different kind of sugar.

The WITNESS: The National Research Council employees, sir.

The CHAIRMAN: To get back to the sugar, was your question answered, Mr. Harkness?

Mr. HARKNESS: Yes, I think so.

The WITNESS: It has turned over all its money. It had a few disputed accounts down in the West Indies; and it may still be legally existing for the purpose of winding up those two or three things. But there are no company officials whatsoever on the payroll.

Mr. HARKNESS: I wondered if there was any existence going on in respect to something which had ceased to operate, but apparently there is not.

The CHAIRMAN: "Commodity Prices Stabilization Corporation Limited" item 93.

Mr. CROLL: That is wound up, is it not?

The WITNESS: Yes.

Mr. BROWNE: It has not wound up yet?

The WITNESS: It is inactive, but the charter is still standing.

Mr. CROLL: Yes, but it is in the act of being wound up.

Mr. BROWNE: Has it still got a staff?

Mr. BRYCE: They have a few disputed cases for subsidy refund and such which they are settling, so it still is in existence settling certain old claims.

Mr. CROLL: But it has no staff.

Mr. BRYCE: There are one or two people working on it, dealing mostly with these accounting problems.

The CHAIRMAN: Are we ready to move on to "Crown Assets Disposal Corporation" item 94?

By Mr. Benidickson:

Q. Could the auditor-general give us the operating expenses of Crown Assets Disposal Corporation for the year ending March 31?—A. The administration expenses were \$395,000, and the direct cost of sales amounted to \$111,000.

Q. That would include rental and storage costs, would it?—A. Their administration costs in 1951 represented 1.9 per cent of sales.

Q. But any cost such as storage charges and so on and the rental of premises for the storage of goods would be included, would they?—A. That is all charged to the corporation.

Q. It is not like some government departments where the Department of Public Works pays the shot?—A. Unless they took over a hangar from the air force which was still full of stuff. I do not think the Department of Defence would charge them for the hangar.

Mr. SINNOTT: You said that 1.9 per cent was the relationship of their administrative costs to their total sales?

The WITNESS: Yes.

The CHAIRMAN: You said that the sales amounted to \$20 million. What was the cash value of those sales? Have they realized the full amount of the sales?

The WITNESS: They realized, I think, \$20,771,000. They realized \$20,659,000. It was mostly ships that year.

The CHAIRMAN: And the balance remains in the books to be paid?

Mr. BROWNE: Is that the total realization since the war?

The WITNESS: No, for the year. Their total sales since the time they started amounted to \$406 million. No, wait a minute. \$490 million were the gross sales.

Mr. HARKNESS: I presume the activities of this company are what you might say, to a considerable extent, coming to an end also, are they?

The WITNESS: I would not say they are coming to an end because there is still a staff, although it is on a much smaller scale.

Mr. CROLL: Slightly!

Mr. HARKNESS: Their staff has been reduced proportionately?

The WITNESS: Yes.

Mr. SINNOTT: Do you know how many are on the staff at the present time?

The WITNESS: No, sir. I have not got that figure but I can get it for you.

The CHAIRMAN: Are there any further questions?

Mr. BROWNE: Where is it located, here in Ottawa?

The WITNESS: Yes, sir.

Mr. BROWNE: And has it got agencies throughout the country?

The WITNESS: They had agencies, but whether or not they have them now in the principal cities, I do not know.

Mr. CROLL: They still have them in the larger cities, such as Toronto and Montreal.

The WITNESS: And Vancouver.

Mr. BROWNE: I know of the Toronto and Montreal offices; and you say there is one in Vancouver too.

The CHAIRMAN: "Custodian of Enemy Property", item 95.

Mr. HARKNESS: You have this statement:

All properly proven claims against the Custodian have been settled. . .

I have heard a considerable number of complaints about claims for property on the Custodian of Enemy Property not having been settled, and there was, I think, a certain amount of dissatisfaction about the slowness of settlement of these claims. What is meant by "properly proven claims" there?

The WITNESS: You are referring to World War I.

Mr. CROLL: The first paragraph.

The WITNESS: You are dealing with World War I.

Mr. HARKNESS: Oh, I did not notice that was only World War I.

Mr. CROLL: I suppose it is where they have an agreed amount.

By Mr. Harkness:

Q. What about the settlement of accounts for World War II? Apparently very little has been done in connection with that?—A. World War II: the amount of property in their possession steadily going down. It was down last year to \$33 million, I think.

Q. That means about \$20 million was paid out?—A. In the year.

Q. Since December, 1949.—A. You see, a great deal of the property that they held was not enemy property but that of friendly countries which were occupied. We held a great deal of French property.

Q. Do you consider that these claims are being met with reasonable speed, or do you and your audit go into that question?—A. No sir, we do not go into that, in our audit.

Q. You would not feel competent to pronounce on it?—A. No. I would be a very poor person to express an opinion on that.

Q. It may be that Mr. Bryce could give us an opinion?

Mr. BRYCE: The Custodian of Enemy Property branch is really a separate trust operation with which the Treasury Board and my operations do not really come much in contact, I am sorry to say.

Mr. HARKNESS: You are aware that there have been complaints about the lack of speed in settling claims?

Mr. BRYCE: I have heard there were complaints, but we regard it as a matter for the Secretary of State and the Custodian's office.

Mr. BENIDICKSON: Is it the custodian of enemy property who has control over the so-called Polish Treasures?

The CHAIRMAN: I think that is the Quebec government at the moment.

Mr. PEARKES: Would claims by Canadian nationals who lost property or who received damage in the Philippines or in any of the islands in the Pacific,

when they were escaping from the Japanese or moving away from the Japanese invasion at the early part of the war, come under this vote?

Mr. BRYCE: There have been recently certain regulations made for interim compensation for such war claims.

Mr. CROLL: You have not got Mr. Pearkes' question.

Mr. PEARKES: Are they paid out of this fund or are they paid out of another one?

Mr. BRYCE: They would come under the general question of compensation for war claims. They are not the Japanese property claims that are referred to in this paragraph.

Mr. PEARKES: I know that, but they would come under this general heading?

Mr. BRYCE: They are administered by the Office of the Custodian of Enemy Property, but they are not part of the accounts mentioned here.

The WITNESS: They come within that inquiry that Chief Justice Ilsley has recently undertaken and they have all recently been covered in that inquiry and the consideration given to them. I do not know, but they all come within the ambit of his instructions.

Mr. CROLL: General, what was your question?

Mr. PEARKES: I wanted to know if they were being delayed.

Mr. CROLL: Did you say this was a Canadian in the Philippines who had property there?

Mr. PEARKES: Who lost property.

Mr. CROLL: Not any other damage, property damage only?

Mr. PEARKES: I know several cases, some with property and some with physical damage.

Mr. CROLL: There is a distinction there because I know of some of the physical damage and the Custodian will not deal with it at all. That is exactly the point I wanted to make.

Mr. SINNOTT: Are you referreing to World War I?

Mr. CROLL: No, World War II. The Custodian won't deal with the physical aspects of it at all.

Mr. PEARKES: I know there has been considerable delay and not a little hardship on the part of people who lost everything in the early days of the war and have had very little, if any, refund made to them.

Mr. BRYCE: As Mr. Sellar says, this matter was under consideration by Chief Justice Ilsley. He made certain recommendations and as a result of those recommendations there have been regulations made for the payment of interim awards in cases of hardship, and certain cases of that sort have been under consideration recently and are in the process of examination at the present time.

Mr. PEARKES: Do you know whether any payments have been made?

Mr. BRYCE: I do not believe, sir, as yet any actual payments have been made.

Mr. PEARKES: That is what I am concerned with.

Mr. BRYCE: These are very difficult cases, as you are aware, because of the nature of the evidence and things like that.

Mr. SINNOTT: What efforts are being made to clear up these accounts dating from World War I?

The WITNESS: The problem there was the tremendous volume of work arising out of World War II, which threw everything in connection with World

War I into the background, and the Assistant Deputy Custodian, Mr. Mathieu, undertook to deal personally with these old disputed claims in connection with World War I, but he just did not have time to do everything, but I think that they are practically all cleaned up now. There are some disputed claims which the government will never recognize and on which the people argue they have a legal claim but are scared to go to the courts with it, but they are still saying, tentatively, there is that contingent risk.

Mr. SINNOTT: There is no way of writing it off?

The WITNESS: Death alone will stop these people from threatening to sue the government.

By Mr. Ashbourne:

Q. This amount of \$296,000 worth of corporate shares. Will you explain that item?—A. Those were shares that were seized, shares that were in the country and were taken possession of, but they have never been converted, and for valuation purposes those are taken at the net worth at the time. We simply had to put in those figures to show it was not in the form of cash.

Q. In 1914-1918? That \$296,800 represents the value at that time?—A. Yes. Most of them were Canadian Pacific shares held in Germany.

Q. They will have quite an appreciation at the present time, I should think?

The CHAIRMAN: The stock went up to 60-something, but it fell down to 4 later on. What is it now?

The WITNESS: Thirty-six.

Mr. HARKNESS: In connection with the third category of accounts, that is the property seized from persons of Japanese race in the early part of the war, you say claimants are required to sign a general release before a payment is made. What is meant by that, I presume, is that even if the claimant has a claim worth \$10,000 and he is paid \$1,000, he has to sign a general release for all the claim.

The WITNESS: Yes, sir.

The CHAIRMAN: A commission studied all the claims.

Mr. CROLL: It was the Byrd Commission, was it not?

The CHAIRMAN: That commission went into all the claims in detail and assessed their worth. We had evidence before this committee, and recommended that these claims be given careful study by an independent body. The commission was then appointed and it assessed a fair value on the losses of those people who had put in claims. Like every human endeavour, they may not be an exact valuation but they are the best efforts of the commission.

Mr. HARKNESS: The claims paid last year, then, were in accordance with the findings of this committee?

The WITNESS: Yes, all in accordance with the findings of the commission. The purpose of having a general release is to avoid facing lawsuits later on.

By Mr. Croll:

Q. While we are on that, have you any idea how many claims are outstanding where people have refused to sign a general release?—A. I can only give you the figures at the year-end. I cannot give you the number of claims, only the amount of money involved.

Q. How will that help me?—A. They paid \$195,000 out and there was \$296,000 still to be paid.

Q. Yes, by our calculations, \$296,000 to be paid under the Byrd Commission.—A. I do not know whether it was the Byrd Commission.

Q. Justice Byrd sat on the commission and they dealt with each claim, and \$195,000 has been paid and \$296,000 is outstanding?—A. As of December 31 a year ago.

The CHAIRMAN: That is December 31, 1950.

Mr. CROLL: I see. Well, it may be cleaned up by now.

The CHAIRMAN: The next item, No. 96, Defence Construction Limited.

By Mr. Benidickson:

Q. On this, Mr. Chairman, I notice that all but \$8,000 of the expenses of this company for its operations during the first year of its existence, namely \$394,000, represents charges by Central Mortgage and Housing Corporation for management, supervisory and administration services provided by C.M.H.C. Does this represent a form of disbursement or is this another cost plus or management fee like the C.B.C. receives for the international shortwave service.—A. The purpose, sir, of revising this corporation was that the Department of Defence Production wanted somebody to supervise the various construction projects across the country. And they wished to use the organization, Central Mortgage Corporation, but under the terms of its legislation it was prohibited from dealing directly with them so they brought in this body in between them and had it act as an agent. It represented a situation wherein Central Mortgage and Housing Corporation was to supervise the carrying out of various projects required for the Department of Defence Production. The item of \$8,000 represented President Johnston's salary and expenses, interest charges and a few things like that for four months only.

Q. There was no over-riding fee; they merely pay Central Mortgage and Housing Corporation for the actual expense of the work under set up balances of Defence Construction Limited.—A. My memory may not be good on this point. I am trying to think back 18 months. I think that was on percentage basis. I think there was some talk at the time, and I think that it represented a percentage—1 per cent or something like that—I forget what it was. I am not sure whether it was a flat fee or what.

Q. These are contracts awarded to supervise the doing of the work?—A. To supervise the functions. I am going actually by memory in speaking like that.

By Mr. Stewart:

Q. Could Mr. Bryce tell us why the Act was not amended instead of setting up a new corporation for that? I presume there must be some good reason. In other words, why could not C.M.H.C. have done it by an amendment to the Act rather than setting up a new corporation to do this.—A. I am sorry, sir, I would have to enquire about that. I recall at the time that there was a time factor involved and they were anxious to get operating; and there were reasons arose against C.M.H.C. doing it directly. I would have to enquire; I would have to find out from the Department of Defence Production.

Mr. STEWART: All right.

The CHAIRMAN: Eastern Rockies Forest Conservation Board:

Mr. CROLL: We will be having maritime Rockies next.

The CHAIRMAN: Any questions, gentlemen?

Eldorado Mining and Refining (1944) Limited:

By Mr. Harkness:

Q. How many shares of this company are now not owned by the government?—A. None, sir. They were all appropriated.

Q. I don't think that 15—out of 70,500—works out to this figure. Maybe my arithmetic, my mental arithmetic is not as good as it should be.

Mr. BENIDICKSON: But would not this be a new corporation after the expropriation of the shares owned by private individuals in the original Eldorado Company?

Mr. HARKNESS: That is correct. I am right in my arithmetic.

The WITNESS: When the company was expropriated an order in council was passed under the War Measures Act simultaneously which converted it into a dominion charter. Later, a new charter was secured from the Secretary of State department under the Dominion Companies Act; and it was varied a little in terms, and then, later on, certain advances which had been made for exploration during the war to the company were converted into shares. Those I think were the changes which you were thinking of, sir.

The CHAIRMAN: Export Credits Insurance Corporation:

By Mr. Harkness:

Q. Is this what you might call a going concern?—A. Oh, yes.

Q. What I mean by that is, is it returning a profit?—A. It has made big profits.

Q. It has?—A. Yes.

• Mr. STEWART: Has it been over-capitalized? Is that on its capital?

The WITNESS: It makes it on the volume of business. I can't say whether it needs \$10 million—others may disagree with me on that.

Mr. SINNOTT: Can you tell us what the profits were last year?

The WITNESS: \$650,000 sir.

The CHAIRMAN: Federal District Commission, item 100:

By Mr. Browne:

Q. Where is the head office of the Federal District Commission?—A. Carling Avenue, Ottawa.

Q. Has it a building of its own?—A. Yes sir, on the slope of the hill.

Q. I notice, "certain charges, noted below, were not properly recorded. The excess of expenditures over the grant was financed from other income of the commission." What was the cause of that?—A. They received a grant of \$300,000 for the general maintenance of driveways and so on. They are also paid so much out of the Public Works vote for the care of Parliament grounds and other grounds. They charged up all these grants to that ground vote. Certain charges that should have been charged to the \$300,000—just off hand I would say to the extent of about \$16,000.

Q. Was this the first time they did that or was it a practice?—A. No, it is not a practice, sir.

Q. Were they doing it intentionally, deliberately?—A. No, they were not doing it deliberately, but I did not know how—they would have if they had it in their \$300,000; it wasn't enough to carry out. It wasn't deliberate, it just happened.

Q. Are they getting an increased grant this year?—A. No, the grant is fixed for 10 years at a time.

By Mr. Croll:

Q. Are they using it?—A. I beg your pardon?

Q. Are they using it, that grant?—A. Yes. But the difficulty is that they went from \$30,000 to \$40,000 over their grant and they are getting it from their other grant.

Q. Where do they get that?—A. Savings from other years, from the \$300,000 granted to them in that vote.

By Mr. Browne:

Q. They don't spend it all each year?—A. No.

Q. And they can let it accumulate?—A. Yes, they can accumulate it.

By Mr. Croll:

Q. And is this amount we are voting becoming inadequate—I don't suppose that is a question for you—is there a need for a greater grant? Is that their claim?—A. If the cost of construction work and wages stays up the \$300,000 will become inadequate.

Q. For their plans, how far in advance?—A. For the maintenance of these driveways, and so on.

Q. Yes. The \$300,000 was given—when was the last time we voted on that?—A. From memory, sir, 1947.

Q. 1947, for a period of 10 years, that would be to 1957. What you suggest is that the cost of construction is rising in such a way as to make the \$300,000 inadequate for the purposes for which it was originally intended?—A. Coupled with the greatly extended driveways.

Q. And that was not contemplated when the \$300,000 was voted?—A. That I would not know the answer to, sir.

Q. But they have had to dip into their reserves now?—A. Yes, sir.

Q. And how far have they depleted their reserves?—A. They have enough to carry on with for 2 or 3 years yet.

Q. They have enough to carry on for 2 or 3 years yet. That will bring them up to 1957; it will not last until the end of the 10 year period?—A. No.

By Mr. Browne:

Q. The Mackenzie King Bridge, does that come under their care?—A. The government is paying for the bridge. It is being erected through the Department of Public Works, but the maintenance of it, I think, becomes municipal; I am not sure of that, sir.

Q. I do not think there will be much maintenance on that, will there?—A. There will be in time.

Q. There is not much traffic on it.

By Mr. Croll:

Q. Now I have one more question on this item: Is this undertaking of the Federal District Commission being in any way in your opinion, jeopardized by reason of lack of funds?—A. I think, sir, there should be a provision somewhere that a replacement fund may be accumulated.

Q. I see, a replacement fund may be accumulated?—A. A small percentage, yes; so that when they have to repave a road they will have the money. And now, the alternative to that is to go to parliament for a special vote when they need to do something of that sort.

Q. And you think that of the two, going to parliament for a vote or building up a replacement fund, that the latter is the more desirable of the two, from the business point of view?—A. Well, if they go to parliament they will ask you for a lot of money—

Q. That is it.—A. —while if you have them on an actual replacement basis fixed on engineering experience you would have a better yardstick.

Q. Is that in Mr. Bryce's department?—A. They are under the Privy Council. It is really Duncan MacTavish who is the chairman of the Federal District Commission.

The CHAIRMAN: Foreign Exchange Control Board, 101.

By Mr. Harkness:

Q. You show there an earnings in 1950 amounting to \$19,749,000; what was the source of those earnings? Was it profit on their exchange transactions?
—A. Yes, sir, and the fluctuating rates on exchange.

By Mr. Benidickson:

Q. Have they had losses some years?—A. They had a big loss last year.

By Mr. Croll:

Q. That was in the exchange with the American dollar, you mean?—
A. Every time the American dollar goes up we take a loss, of course.

By Mr. Harkness:

Q. That was just the point I was coming to. This same document that we will get next year will show, instead of this \$19 million profit probably a very considerable loss?—A. The document is already tabled in the House, sir. You see, this is a report which is required within three months after the first of January and it has already been tabled for 1951.

Q. I mean when it comes into our review here in this committee next year?
—A. Yes, you will have a sad figure next year.

Q. And that is their only way of making either profit or loss is on the fluctuation in the exchange rate essentially?—A. Plus their earnings on interest on investments in the United States securities.

Q. That is what I wanted to get at. They have no earnings, of course, on gold and the American dollars they hold which amount to \$1,600,000,000 or something, but if they hold American securities they have the interest on those?—A. Yes, they hold a lot of short-term American securities.

By Mr. Croll:

Q. Well, was that a matter of investment for them?—A. Yes.

Q. They chose certain securities?—A. They would buy American dollars for exchange purposes. Instead of leaving the money lying idle in a bank, they would buy 90 or 120-day United States government securities.

Q. United States government securities—not common stocks?—A. Oh, no, by statute they cannot buy anything but government stocks.

Q. My next question was going to be in view of the profit to give us a list of those securities, but I see it is not necessary.

Mr. HARKNESS: You thought you might get a line on something.

Mr. CROLL: Yes, I was just edging for it. I was going to get some advance information.

The CHAIRMAN: 102, Greater Winnipeg Dyking Board.

103, National Battlefields Commission.

Mr. CROLL: Mr. Stewart, aren't you going to ask any questions on that at all?

Mr. STEWART: All I would do is pass a comment that I am absolutely flabbergasted that the government of Manitoba was paid more than 25 per cent.

Mr. CROLL: You would.

The CHAIRMAN: 104, National Harbours Board. Any questions on 104?

105, Northern Transportation Company Limited.

By Mr. Harkness:

Q. Is this the company which operates river boats up the Athabasca and Mackenzie rivers?—A. Yes, sir.

By Mr. Croll:

Q. Getting back to 104 for one moment, there is a deficit in Halifax, Saint John, Chicoutimi and Quebec. I wonder whether Mr. Sellar or the parliamentary assistants could tell us why, as against the surplus in Three Rivers, Vancouver and Montreal—on page 30?—A. In my view, sir, you will have to ask the people who know more about operating than I do, but in my view the problem of those ports is essentially the interest that has to be paid on the capital investment. If you will notice there towards the end of the report I put the interest in arrears. You will see that Quebec is \$12,885,000 for interest alone and that is all taken into calculation whether they have got a deficit or a profit in the year. It would be interest charges.

Q. Is that then considered in the national interest?

The CHAIRMAN: Well, you can't close the port of Quebec, I don't think.

By Mr. Croll:

Q. Is that the over-all view?—A. Well, I have argued before, sir, that you have to regard these ports from a national viewpoint as important facilities for the transport of our trade both incoming and outgoing and there are certain ports where the facilities are not used enough to permit port revenues to be adequate to bear the costs of those facilities and I think that sooner or later you have got to treat these national harbour ports the same as you are going to treat the railways and forget some of the investments in the hope of getting back some of the capital and regard it as a facility rather than an investment.

Q. Why don't you make a recommendation sometime?—A. I have tried it several times.

Q. Try it again.—A. Three Rivers, for example, is a well run port with very limited capital investment. Vancouver has always been a good paying port. But as to some of the others, they are good only in the war years.

Mr. BENIDICKSON: But you must remember we were asked the other day for additional expenditures for Vancouver. They claim they had lagged somewhat behind other ports.

The CHAIRMAN: We have asked for expenditures for Quebec because even going on the roadways in the harbour you can ruin a car the way they have let it do down so as to try to cut the deficit each year, but they do not get enough revenue to pay the interest on the heavy capitalization.

Mr. SINNOTT: Isn't this National Harbours Board the same board that operates the port of Churchill?

Mr. CROLL: Yes.

Mr. SINNOTT: I don't see Churchill here.

Mr. CROLL: Yes, Churchill has a deficit.

Mr. HARKNESS: \$194,000 deficit.

Mr. SINNOTT: The deficit is \$194,390. That is very little in comparison to the deficit of \$12,885,000 in Quebec.

Mr. CROLL: But the Quebec has accumulated over more years than you and I have lived. It is a very old one. It was originally, if I recall—Mr. Sellar will correct me on it—it was originally built up in order to have the availability

for war purposes. It was started in World War I and constantly built up to have it available. The expenditure is there and afterwards there is not much use for it. They have, of course, done the same thing there, as was pointed out by Mr. Sellar, as they did with the Canadian National Railways.

The CHAIRMAN: The same thing was done when the Transcontinental was built to Quebec in the hope that the grain might flow out of Quebec and all the large companies had their interests in Montreal and they managed to keep the traffic through to Montreal in the summer time and Portland, Maine in the winter instead of Quebec. And then, as Mr. Croll stated, they had to extend the facilities because Valcartier was the starting point of all the troops and materials going overseas except in the winter months. It has been abandoned to a large degree in the last ten or twelve years and representations have been made by the Quebec Board of trade to the Department of Transport now to try and keep the facilities at least in a moderate state of operation.

They have two or three sheds there that are nearly abandoned that have to be rebuilt and yet the port cannot make a profit on the investment that has been made in the first war and during the years that they had the prospect of realizing the dream made at the time of the building of the Transcontinental that since it would shorten the route from the west to the ocean the harbour of Quebec would gain in importance but it did not work that way although the investment was made and the grain elevators were built. Some years we had even to store wheat there to try and keep the place busy.

Mr. BOISVERT: And, Mr. Chairman, also to have accommodation for bigger ships.

Mr. SINNOTT: As I understand it, the interest in arrears is increasing rather than diminishing.

Mr. CROLL: That is right.

The CHAIRMAN: It is the same as the Canadian National Railways capitalization as Mr. Croll stated. Are we through with the Northern Transportation, 105?

Mr. HARKNESS: No, we got interrupted and we reverted.

By Mr. Harkness:

Q. It seems that on the income your profit of \$425,765 is very much considering that the total amount of business done was \$1,771,000. Would you make any comment on that, Mr. Sellar?—A. No, sir, it is a peace and famine business, of course, in the north country.

By Mr. Croll:

Q. Where is the famine?—A. When you have bad years.

Q. Have we had bad years there?—A. No, but you used to have. The Hudson's Bay Company pulled out of that route altogether; at one time there were three companies competing for business. It is now down to one, but so far as the profit goes there the rates are fixed by the Board of Transport Commissioners.

By Mr. Harkness:

Q. That is, the maximum rates are fixed?—A. Yes.

Q. And these people actually charged lower than the maximum rates in some cases?—A. Yes.

Q. They have a monopoly and it would seem to me it would be proper, good government policy and the company is owned by the government, to reduce those rates in the interest of encouraging people to open up the north country?—A. One answer to that, sir, would be this: there are two or three very long

portages which are very expensive to cross and the company is spending an amount of money every year to simplify the crossings and reduce the cost of handling the freight. So that in two or three years they will be able to generally operate the business much more cheaply than they are now. Furthermore, in recent years they have had to replace a lot of the barges which were worn out and had to put in steel barges but it is quite a large capital outlay.

Q. I see they had depreciation, though, of \$242,000 this year, which would have covered a good deal of that.

Mr. MACDONALD: Mr. Chairman, I would like to interject here that this company is very well managed by Mr. Brodwick and Mr. Bennett, the president of the commission concerned and there are a lot of factors to take into account with this northern transportation, getting the freight in there in the proper season, seeing they are not cut off by the freeze-up and so on and I think this is a very good reflection on the management concerned, that they can show an income of an amount of \$425,000.

Mr. HARKNESS: I think Mr. Macdonald's remarks are very proper, but the point I was concerned with was whether it would be within the purview of this committee to make a recommendation that in the interests of encouraging development in the north country the rates might be reduced.

Mr. SINNOTT: Create more volume.

Mr. HARKNESS: Yes, there are lots of people who might go into that country if they could do so more cheaply than they can at the present time, both for prospecting purposes and other developments.

Mr. MACDONALD: Don't you think it rather presumptuous for us to start setting the rates here on a company that has such good management?

Mr. HARKNESS: I should not think we should be setting rates. I was wondering, as I said, whether it would possibly come within the purview of this committee to make a recommendation.

The CHAIRMAN: It might, but before we do that we would have to go a little more closely into the affairs of the company and know whether the idea of reduction is substantial by the need for it and if it is advisable to do it. I do not think the committee has enough information with these paragraphs and a few sentences from the Auditor General to warrant a recommendation one way or the other.

Mr. HARKNESS: I would agree with that. I would think it is perhaps one of the things that the agenda committee might consider, whether we should have it studied.

The CHAIRMAN: If you want to move that we can go into that in the agenda committee and see if we can get these people. If you will notice in the report there is this statement:

The company reduced its charges to the three points in accordance with the board's directives, but it has indicated that it does not currently intend to increase those rates which are now lower than the new rates prescribed by the Board of Transport Commissioners.

So they must not be so very high if they are lower than the rates prescribed by the board.

Mr. HARKNESS: They are high enough so that they make a profit on gross business of over 25 per cent.

The CHAIRMAN: I hope you would not suggest that it is a good idea not to take profits when we have to protect the peoples money. If they had a deficit they would be told they had not administered the company well.

Mr. HARKNESS: My concern is entirely whether in the interests of developing that north country it would not be advantageous to have the rates reduced.

The CHAIRMAN: Another thing is to know whether representations have been made in any definite form as to why they should be reduced and to have the board's views. That would be quite a lengthy study but we will take a note of this request by Mr. Harkness.

Item 106, Northwest Territories Power Commission.

107, Park Steamships Company Limited?

Mr. BROWNE: Is that company still in operation—operating ships?

The WITNESS: It has no staff. It is technically in existence but officers of the Department of Transport and the Marine Commission are really functioning as the officers. There are four ships still in existence, I think, all under the management of the United Kingdom government. The rest have been sold and the business is practically done.

The CHAIRMAN: Item No. 108, Polymer Corporation.

Mr. BROWNE: This company makes money?

The WITNESS: Fortunately last year it did and again it did this year.

The CHAIRMAN: Well, we have reached the last item of this report. We now have the appendix—are there any questions on refunds and remissions—pages 33 to 37?

Mr. BENIDICKSON: What would the remission to the Newfoundland Margarine Company be on page 35?

The WITNESS: It was agreed, sir, at the time of union that margarine would be imported into Newfoundland duty free. The source was the United States, I think, and this was the remission in accordance with that understanding.

The CHAIRMAN: Are there any further questions?

By Mr. Harkness:

Q. The largest sum I see here is \$742,000 to the British American Oil Company Limited. What would that remission be for?—A. That covers petroleum products imported from California for processing purposes in Canada.

Q. What would be the reason for that remission being given?—A. I do not think the order in council stated that and my interest stops with who exercises the discretion.

Mr. BENIDICKSON: Most of the oil companies get that. I see Imperial Oil here.

Mr. HARKNESS: Can you answer, Mr. Bryce?

Mr. BRYCE: I am sorry, sir, I should be able to but it has to do with the technicalities of importing and processing crude oil. There are certain cases where the oil companies cannot get regular crude and they import a partially finished product that does not quite come under the ordinary tariff. It is that sort of operation I believe. Then, at certain times the oil companies have difficulty in getting Canadian coastal transport and they are allowed to hire tankers to engage in coastwise operations at so much per month. That sort of thing occurs and I could find out about this particular case.

Mr. HARKNESS: It is all right but I just wondered why they would come in there or what would be the reason that the ordinary tariff would not apply.

Mr. McCUSKER: Would it be for high octane gas for aviation?

Mr. BRYCE: I will find that out for you, sir.

By Mr. Stewart:

Q. Has Mr. Bryce got any information on the item of \$616,000 for a provincial pipe line? Why should there be a refund there?—A. It was the remission of a 60 per cent duty tax paid on steel pipe used on the line between Edmonton and Regina.

Q. Pipe imported from the United States?—A. I do not know whether it was from the United States or the old country.

Mr. HARKNESS: I think it came from the United States.

Mr. SINNOTT: It was larger pipe.

Mr. HARKNESS: It was not available in Canada. No Company in Canada makes pipe of that size or did not do so at that time. I do not know whether they do now.

The CHAIRMAN: Are there any further questions on these items, gentlemen?

Then we have completed consideration of the Auditor General's report.

There remains for the agenda committee to decide on a few items which have been left in abeyance. There is item 17 on page 6 and it was proposed that a recommendation be made that the rate be increased in order that the scheme may be made self-supporting. It concerns the Canada Shipping Act and the rate paid by steamship companies for the care of sick mariners. That matter was proposed by Mr. Cavers and Mr. Browne.

Then we have items 28 and 29 on page 9 and a proposal to call witnesses if necessary from the Veterans Land Act administration.

On page 11, item 31, case No. 2, it was proposed that we call a witness from Canadian Arsenals—requested by Mr. Pearkes.

Item 39, case No. 3, a witness from Indian Affairs requested by Mr. Harkness. Item No. 86 on page 24, army benevolent fund, a request for a witness to discuss the expenses of \$63,000—the request by General Pearkes.

If it is agreeable the committee might meet on Tuesday next at 4 o'clock. In the meantime the agenda committee will get together and see how we can arrange for the proper witnesses to be brought before the committee.

Mr. HARKNESS: There would also be this Northern Transportation Company.

The CHAIRMAN: Oh, yes, also the Northern Transportation Company.

Do you agree, gentlemen, that we are through with the Auditor General as far as our work on this is concerned. On these other items he has referred us to other witnesses.

If there are no further questions I will express the thanks of the committee to the Auditor General for his collaboration—his usual very enlightening co-operation. We will also thank Mr. Bryce for his assistance to the committee in performing our work.

The committee stands adjourned until Tuesday next at 4.00 p.m.

The committee adjourned.

*Canada, Public Accounts
Standing Committee, 1952*

HOUSE OF COMMONS

Sixth Session—Twenty-first Parliament, 1952

Government
Publications

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

CHAIRMAN—MR. L. PHILIPPE PICARD

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

TUESDAY, JUNE 3, 1952

WITNESSES:

- Dr. G. D. W. Cameron, deputy-minister, Department of National Health and Welfare;
Dr. W. H. Frost, assistant chief, Quarantine, Immigration Medical and Sick Mariners Division;
Mr. J. T. Rutherford, director, Veterans' Land Act;
Mr. W. Strojich, a/superintendent of Property division, Veterans' Land Act;
Commander (L) E. J. Apps, R.C.N.;
Major D. M. MacKay, director, Indian Affairs Branch;
Mr. H. C. Chadderton, secretary, Army Benevolent Fund.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, Room 430,

TUESDAY, June 3, 1952.

The Standing Committee on Public Accounts met at 4.00 o'clock, p.m. The Chairman, Mr. L. Philippe Picard, presided.

Members present: Messrs. Anderson, Ashbourne, Benidickson, Blue, Boisvert, Boivin, Browne (*St. John's West*), Cavers, Fleming, Fraser, Fulford, Gibson, Harkness, Kirk (*Antigonish-Guysborough*), Kirk (*Digby-Yarmouth*), Major, Picard, Riley, Robinson.

In attendance: Dr. G. D. W. Cameron, deputy minister, and Dr. W. H. Frost, assistant chief of the Quarantine, Immigration Medical and Sick Mariners Division, Department of National Health and Welfare; Mr. T. J. Rutherford, director, Mr. W. Strojich, a/superintendent of Property Division and A. D. McCracken, executive assistant to director Veterans' Land Act Administration; Commander (L) E. J. Apps, R.C.N. and Mr. L. G. Crutchlow, of the Electronics Division of the Canadian Navy; Major D. M. MacKay, director of Indian Affairs Branch, of the Department of Citizenship and Immigration; Mr. H. C. Chadderton, secretary, Army Benevolent Fund.

The Chairman read a letter from Mr. R. B. Bryce, assistant deputy minister of Finance, to the Committee in which replies are given to questions asked of Mr. Bryce at the previous meeting.

The Committee enquired further into certain items of the Auditor General's Report for the fiscal year ended 31st March, 1951, and as each such item was called several witnesses were heard as follows:

<i>Items Called</i>	<i>Subject</i>	<i>Witnesses Heard</i>
17, page 6	Administration of section 305 of the Canada Shipping Act, c. 44, 1934, concerning Scheme for medical services to mariners.	Dr. G. D. W. Cameron Dr. W. H. Frost
26 to 29, pp. 9-10	Administration of Veterans' Land Act, c. 33, 1942-43.	Mr. T. J. Rutherford Mr. W. Strojich
31 (case II), page 11	Purchase of radar equipment for ships.	Cdr. (L) E. J. Apps, R.C.N.
39 (case III), page 14 ...	Rental agreements — Copeland Building, Ottawa.	Major D. M. MacKay
86, page 24	Administration cost of Army Benevolent Fund.	Mr. H. C. Chadderton

At the conclusion of his testimony each witness was in turn thanked by the Chairman and was retired.

It was agreed that an official from the Department of Public Works be requested to appear at the next meeting of the Committee, to testify in respect of Item 39 (case III), page 14, concerning the rental agreements entered into for the Copeland Building in Ottawa.

The Committee further discussed Item 105, page 31, concerning Northern Transportation Company (1947) Limited.

The Chairman informed the Committee that Mr. W. J. Bennett, president and managing director of Eldorado Mining Refining Company, of which Northern Transportation is a subsidiary, was absent from the city but that arrangement would be made to have Mr. Bennett, or some other official of the Company, appear before the Committee at the next meeting.

At 5.55 o'clock p.m., the Committee adjourned to the call of the Chair.

ANTOINE CHASSÉ,
Clerk of the Committee.

EVIDENCE

June 3, 1952. 4.00 p.m.

The CHAIRMAN: Gentlemen, before we call any witnesses I would like to read a letter received from Mr. Bryce, assistant deputy minister of Finance, giving the answers to two questions asked at the last meeting.

Ottawa, June 3, 1952.

A. CHASSÉ, ESQ.,
Committee Clerk, Public Accounts Committee,
House of Commons,
Ottawa, Canada.

Dear Mr. CHASSÉ—At the last meeting of the Public Accounts Committee I was asked two questions which I could not answer at the time, but about which I promised to furnish information later.

The first question was: "Why was it considered necessary to set Defence Construction Limited rather than simply use the Central Mortgage and Housing Corporation, with whom Defence Construction Limited entered into a management contract?" Upon inquiry I have found from the Department of Defence Production that the essential reason was that it became necessary to make some arrangements for a company to act on behalf of the Minister of Trade and Commerce in arranging for the construction of defence works under the Defence Supplies Act, late in 1950. Parliament was not in session at the time, and the Defence Supplies Act provided that the Minister could employ the Canadian Commercial Corporation or any company to which the Government Companies Operation Act applied, for this purpose. As the Canadian Commercial Corporation was being fully utilized for the procurement of defence supplies, and as the Central Mortgage and Housing Corporation was established by special statute and was not a company to which the Government Companies Operation Act applied, it was considered the simplest course to utilize Wartime Housing Limited, to which that Act applied, and change its name to Defence Construction Limited to reflect its new role. The latter company then entered into a management contract with Central Mortgage and Housing Corporation, so that there would be no need to duplicate any of the staff or field organization of the latter company. The creation and role of the company were announced in a press release of November 23, 1950, and the Minister of Defence Production explained the relationship between the two companies in answer to a question in the House of Commons on June 14, 1951 (*Hansard*, page 4118).

If anybody wanted further information on this we could call Mr. Bryce back, but it was considered at the last meeting that probably his answer on this would be sufficient. However, if some members are not satisfied with that, we can ask him at a later meeting to come, but his answer will be printed in the report of our proceedings.

The second question concerns the remission of customs and excise duties and taxes to the British American Oil Company Limited, Toronto, noted in the fourth line on page 34 of the Auditor General's Report. I was to inquire about the nature and reason for this remission.

I find upon inquiry that this is a remission of dumping duty that was payable upon the importation of petroleum products by the British American Oil Company from the Richfield Oil Corporation, of Los Angeles, California, during the fiscal year 1950-51. A subsidiary of the Canadian company produces crude oil in Oklahoma, and made an arrangement with the Richfield Oil Corporation of Los Angeles to refine it and ship it to the Canadian company. The Canadian company paid the value of the crude plus the refining charge. These arrangements were made pending the construction of additional refining capacity in Canada. The arrangements made it possible for Canada to obtain these petroleum products at the least cost in foreign exchange, and with the result that the profits accrued so far as possible to the company subject to Canadian income tax. The Minister of National Revenue and the Treasury Board therefore felt that they were justified in recommending the remission of dumping duty in order to make the working out of this plan possible. No remission of ordinary customs duties or excise taxes was involved.

Yours truly,

(Sgd.) R. B. BRYCE.

Do you wish that we call Mr. Bryce again on this?

Mr. HARKNESS: No, I think I asked that question, and that is satisfactory.

The CHAIRMAN: We have some gentlemen who have come here today because of questions asked during the course of our study of the Auditor General's report. I will call them to the table in the order in which they were mentioned during our previous meeting.

Therefore, item 17 of the Auditor General's report, dealing with the Canada Shipping Act 1934, chapter 44, section 305, concerning the sick mariners services, will be first, and we have with us today Dr. Cameron, the deputy minister of National Health and Welfare, and Dr. Frost, assistant chief of the Quarantine, Immigration Medical and Sick Mariners Division. Will you kindly step to the table, gentlemen.

I see that the two gentlemen who asked the questions are not here today, but I think the verbatim report was forwarded to Dr. Cameron, so I wonder if the doctor wishes to make a statement. You have seen, doctor, the report of our proceedings, and although the members who asked the questions which necessitated you being here are not present today, I wonder if you would care to say a few words on the matter.

Dr. G. D. W. Cameron, Deputy Minister of National Health and Welfare.

The WITNESS: Mr. Chairman, as the Auditor General has reported, this operation is, should I say, solvent in so far as deep sea vessels are concerned, but in so far as the very small vessels of the fishermen are concerned there is an increasing spread between the dues paid and the cost of providing the service. This is a matter which, of course, is well known in the department, and has been discussed repeatedly.

Various remedies have been proposed involving higher payments by the fishing vessels. Since the extension of this scheme to cover fishermen dates back many years, there has been developed over the years a very valuable assistance to the fishermen in the form of medical care and hospitalization. If the rates are raised sufficiently to make this a solvent operation there is the possibility that a number of particularly smaller fishing vessels will feel that they are unable to pay the dues and they may well decide to withdraw from

the scheme, so that you have the problem of deciding whether or not solvency is the more important objective or continuance of the medical care and hospitalization for the largest number possible.

We believe from our calculations that there would have to be an increase in charges to the fishing vessels of something like ten to twenty times the premium they are now paying.

The CHAIRMAN: Are there any questions, gentlemen?

Mr. ASHBOURNE: Would Dr. Cameron outline how the services are provided, and to what extent, as far as the fishing vessels themselves are concerned?

The WITNESS: Mr. Chairman, the general procedure is that all fishing vessels are entitled—not compelled—to pay dues on a tonnage basis of 2 cents per ton to be paid not more than three times a year.

Mr. ASHBOURNE: It is not compulsory?

The WITNESS: It is not compulsory. For this, and on establishment of the fact that the individual sailor is a bona fide member of the crew of a vessel that has paid dues, he is entitled to full medical care and hospitalization. As an administration procedure, we usually limit this to one year's hospitalization; as I say, on establishment of the fact that the man is a member of the crew. The dues are collected by collectors of customs at all ports. If a mariner becomes sick, his captain gives him a document, sends him to the collector of customs to have it validated, and then he is entitled to receive care either by our port physician or by a doctor of his own choice, depending on the arrangement, the size of the port, the locality, and so on. In many cases the treatment is given in our sick mariners' clinic such as we operate at Montreal, Halifax, Quebec, Saint John, N.B., Vancouver and Sydney.

Mr. ASHBOURNE: Is there any floating ship such as a hospital ship around the Atlantic coast?

The WITNESS: No, sir. Dr. Frost tells me there was during the war, but we do not do it now.

Mr. BENEDICKSON: Has there been evidence produced to establish how the losses are attributable to the fishing vessels rather than to something else?

The WITNESS: Mr. Chairman, we have the records of the revenue derived from all classes of vessel, and our records disclose where the expenditure is going.

Mr. CAVERS: Referring to the minutes of the meeting the other day, is that deficiency attributable to fishing ships or to merchant ships?

The WITNESS: Fishing ships; the smaller vessels.

Mr. GIBSON: Are they covered on the Great Lakes? Can they be covered?

The WITNESS: By the terms of the Act only the seacoasts on either side, the coast of the province of Quebec, Ontario and Manitoba where they abut on Hudson Bay, St. Lawrence river traffic up to the point where the province of Ontario becomes the northern shore of the St. Lawrence river.

Mr. GIBSON: Do they pay 2 cents a registered ton three times a year?

The WITNESS: Up to three times a year. It depends how often the ship comes into port.

Mr. ROBINSON: With a minimum?

The WITNESS: Yes.

Mr. ROBINSON: Of how much?

The WITNESS: \$2.

Mr. KIRK (*Digby-Yarmouth*): That 2 cents per registered ton not more than three times a year; they are paying 6 cents a year a ton in order to have that?

The WITNESS: Yes.

Mr. KIRK (*Digby-Yarmouth*): You mentioned hospitalization, and the fact that the man was entitled to hospitalization up to a maximum of a year: a year over how long a period?

The WITNESS: Dr. Frost reminds me it is a year for each condition—each episode or illness.

Mr. FRASER: Is that in the Act?

Dr. FROST: It is section 308 (6).

Mr. FRASER: Of the Canada Shipping Act?

Dr. FROST: Yes.

Mr. FRASER: What about drug prescriptions; are they paid?

Dr. FROST: Yes.

Mr. FRASER: Medical care, hospitalization, drug prescriptions, and dental care in the form of what?

Dr. FROST: Extractions only, as far as dental care is concerned.

Mr. FRASER: The reason I am so interested, I don't know the exact figures, but I would assume that the largest percentage of the smallest fishing boats in southwestern Nova Scotia pay these dues and receive benefits. I remember a year or two ago when this matter was brought up, and I was approached by a great many of the fishermen most anxious to see this continued and most anxious not to see any increase of the dues suggested by Dr. Cameron.

Mr. GIBSON: When were these rates established?

Dr. FROST: In the first instance in 1868.

Mr. GIBSON: Has there been no increase since that time?

Dr. FROST: No, there was a decrease over a short period; 1½ cents instead of 2 cents.

Mr. CAVERS: Is it now on the same basis as it was in 1868?

Dr. FROST: Yes, the same basis.

Mr. ASHBOURNE: I notice in the 1938-39 revenues, according to the Auditor General's report, were \$210,000 and expenditures were \$188,000: that would leave about \$22,000 profit on the scheme. Could Dr. Cameron tell us what happened to that money? Did it go into the treasury?

The WITNESS: It is all dead revenue.

Mr. ASHBOURNE: Could you tell us throughout the years the amount of surplus that might have accumulated in that regard, or the amount that might have been transferred to the Consolidated Revenue Fund?

The WITNESS: The total revenue from 1867 to 1951 was \$9,251,000. The total expenditure over the same period was \$10,338,700.

Mr. ASHBOURNE: Does that include the operation of the head offices, administration, and salaries?

The WITNESS: No sir, this is payment for medical care.

Mr. ASHBOURNE: It does not include anybody at the Ottawa level administering this Act?

The WITNESS: No.

Mr. GIBSON: I appreciate Mr. Kirk's problem too, and the fishermen's reaction to that, but it seems to me that fish that were selling at 1 cent a pound in 1868 are probably worth 20 cents a pound now, and fishermen are in the peculiar position of not being able to be covered under the Workmen's Compensation Act. It would seem to me that the fishermen would be very happy, I think, if they could perhaps get a greater coverage—not necessarily greater—but the doctor knows I have had some discussion, and we have a little difficulty

in ports in British Columbia getting coverage, but it seems to me the fishermen would be willing to pay a higher assessment to give them a better coverage because they of all the workmen in Canada are more in need of it than others.

Mr. CAVERS: They are entitled to benefits, and this is one of the things that they have which I think offsets to some extent those benefits. I am quite willing to admit the price of fish has gone up in the last forty, fifty or sixty years, but by the same token, so has the cost of modern gear, and whether their net profit percentagewise is any greater or not is very questionable.

Another question comes to my mind, Mr. Chairman, with regard to port physicians who are on a stated salary: Are those expenses charged up to this fund?

The WITNESS: All the costs of the medical care, physicians, hospital, drugs, everything.

Mr. BENIDICKSON: Is there any government hospitalization that we undertake comparable to this from which there is some revenue? Does any other class of citizen get any subsidized hospitalization?

The WITNESS: Well, sir, I don't know whether I should mention—

Mr. BENIDICKSON: I know about the Indian service but, of course, they pay nothing.

The WITNESS: Answering that directly, Mr. Chairman, I think the answer is "no", with the possible exception this scheme also covers certain government vessels which operate on the coast, to that extent.

Mr. GIBSON: They pay their fees?

The WITNESS: They pay the same rates.

Mr. ROBINSON: Why were those on the Great Lakes excluded from the Act?

The WITNESS: I cannot be certain. We have been searching the library going back to 1867 and I cannot answer the question directly, but the inference seems to be that in origin this was a scheme to look after the deep-sea crewmen thrown out on the dock at our seaports.

Mr. ROBINSON: Have there been any representations from fishermen in the Great Lakes to come under the operation of the Act?

The WITNESS: The matter has been discussed with us.

Mr. ROBINSON: By what categories? Fishermen, or—

Dr. FROST: Foreign ships have asked for treatment on the Great Lakes at times.

Mr. ROBINSON: At our expense?

Dr. FROST: At our expense, on the amount that is collected now.

Mr. ROBINSON: Are there any Canadian fishermen, or Canadian seamen?

Dr. FROST: Not looking for treatment as far as I know, on the Great Lakes.

Mr. FULFORD: The service stops at the end of the Quebec border on the north shore of where Lake St. Francis becomes Ontario.

The WITNESS: Yes.

Mr. FULFORD: In other words, a foreign ship could get it at the head of the St. Lawrence canal, but not at the foot of the Lachine canal?

Dr. FROST: It does not operate on the canals. It operates at the ports, not in intermediate areas.

Mr. FULFORD: Suppose the foreign ship has paid its dues? I thought you said that this Act extended as far as the Ontario border, and no further.

Dr. FROST: Well, it does, but the last port is Montréal.

Mr. GIBSON: It is an anomalous Act, I think.

Mr. FULFORD: A most extraordinary Act.

Mr. RILEY: Can the doctor go on to explain—he said there were medical expenses and expenses of medical services in hospital chargeable against this fund; did he also intend to convey that the capital outlay in respect of the sick mariners' hospital is chargeable also against the fund?

The WITNESS: There are no sick mariners' hospitals.

Mr. RILEY: Well, the equivalent.

The WITNESS: We have not built any accommodation for hospitalization of these people.

Mr. RILEY: Where do you have them?

The WITNESS: They go into the hospital of the community nearest at hand.

Mr. KIRK (*Digby-Yarmouth*): Are there no areas where you have a registered nurse on a part-time basis?

Dr. FROST: There are no nurses.

Mr. KIRK (*Digby-Yarmouth*): Are there areas where you pay for nursing services? I mean, suppose a man is put ashore in some small area, and is taken care of by some registered nurse: those are not payable?

Dr. FROST: Not in that case, no.

Mr. KIRK (*Digby-Yarmouth*): There is another point comes to my mind: the doctor scared me when he mentioned such figures as a twenty-fold increase in fees: Is he still thinking in terms of tonnage, or in terms of number of men per ship?

The WITNESS: Mr. Chairman, we have considered from all angles this problem and tried to figure out what could be done to change the rates to place the charges where the deficit is, and it seems to us that if you maintained a tonnage rate at 2 cents, or possibly raised it to 3 cents, you would still have to make a minimum charge, instead of \$2, or \$30 or \$40.

Mr. KIRK (*Digby-Yarmouth*): Per ship?

The WITNESS: Per ship.

Mr. GIBSON: Per ship per annum?

The WITNESS: Yes.

Mr. CAVERS: That would seem to be unreasonable having regard to the medical services provided.

Mr. KIRK (*Digby-Yarmouth*): As it is at present a small craft with a crew of two or three pays \$2, and your suggestion is that it may be necessary in order to make this fund solvent to make a \$40 fee for that craft, which would be \$20 per man or \$13.30 per man?

The WITNESS: Yes.

Mr. FULFORD: That is pretty high health insurance.

Mr. CAVERS: It is infinitely cheaper than any other compensation rate with comparable hazards.

Mr. FULFORD: The only compensation is the free hospitalization and medical care.

Mr. ROBINSON: Doctor, would it be fair to charge a ship with two seamen the same minimum as a large ship employing 20?

The WITNESS: Mr. Chairman, the larger the ship the more close it comes to paying it way under the present scheme. If you raise the income by raising the rates per ton or per man it means that the ships that are now in the solvent operation will be carrying the ones in some part that are in the insolvent part of the operation.

Mr. ROBINSON: As I take it, a 1000 ton ship would be \$20 on first entry into Canada; is that right?

The WITNESS: Yes.

Mr. ROBINSON: And another 1,000 ton ship that enters three times would pay \$60?

Dr. FROST: That is right.

Mr. ROBINSON: And the first ship might discharge 10 people requiring medical services, and the other might discharge none whatsoever in three trips?

Dr. FROST: That is quite true.

Mr. ROBINSON: Doesn't there seem to be an inequality there?

Mr. HARKNESS: It is like all insurance: you may die and I might live.

Mr. KIRK (*Digby-Yarmouth*): Why not have them all in one group? I am of the opinion that people in those smaller boats are subject to much greater risks than those in the larger boats, and I would like to see it put on a basis of them all paying the same. Take a similar case in insurance mortality tables: we don't know how long they are going to live, and we are gambling and the insurance company is gambling, although I know the insurance company has never lost. I would like to see our fishermen on the smaller boats receive this protection at as reasonable a cost as possible. If we have to do this to make a plan solvent, I would like to see the small boats and the larger boats put in one group, and a fee secured that would bring us in enough.

The CHAIRMAN: Would you agree to the smaller boats paying as much as the larger ones?

Mr. KIRK (*Digby-Yarmouth*): On a tonnage basis.

The CHAIRMAN: We may have to draft a recommendation on this, so could we understand that please?

Mr. KIRK (*Digby-Yarmouth*): Either on a tonnage basis or on a per man basis, but not on a vessel basis.

The CHAIRMAN: That is what I mean. You do not want to quote so much per boat, if one only has 2 seamen on board. You would not like that, coming from the coast of Nova Scotia?

Mr. KIRK (*Digby-Yarmouth*): No.

Mr. FULFORD: Do they only get these free medical services during the performance of their duty? For instance, if a fishing boat is laid up part of the season and a member of the crew becomes ill, does he get the medical services then, or only if it is in commission?

The WITNESS: Only when it is in commission.

Mr. FRASER: And only on landing, it is?

The CHAIRMAN: You mean when it calls at a port?

Mr. FRASER: It must be entering a port, and the man must be sick at that time.

The WITNESS: If a man takes sick aboard and the ship puts in at another port, he can be landed and treated.

Mr. FRASER: But it must be on the landing—in salt water, except in the St. Lawrence?

The WITNESS: Landing within the area covered by the Act.

Mr. KIRK (*Digby-Yarmouth*): That brings up another point. The committee has been proceeding on the basis of comparing this with other schemes, and if a man is on duty for six months and the fee has been paid for the year, if he is not on duty it is my understanding he does not receive these benefits.

The WITNESS: He does not.

Mr. KIRK (*Digby-Yarmouth*): So it is not fair to compare it with another scheme where you receive the benefits no matter when or where?

The WITNESS: That is correct.

The CHAIRMAN: Have you any further questions on this matter, gentlemen?

Mr. BROWNE: Is the fund now solvent? I must apologize Mr. Chairman, but I was not here earlier.

The CHAIRMAN: Yes, from 1867 to 1951 the figures were given; how much was collected and how much paid out.

Mr. ASHBOURNE: Could Dr. Cameron tell us the number of fishermen treated last year and the number of vessels?

The WITNESS: The number of vessels paying dues in 1951 was 7,215. The number of fishermen treated in 1951 was 15,882.

Mr. FULFORD: That is about 2 to a ship.

Mr. GIBSON: What was the average payment you made to the fishermen?

The WITNESS: The average payment divided over that number would be just slightly more than \$2.

Mr. GIBSON: You just gave them an aspirin tablet in most cases, then?

The WITNESS: I would like to correct the impression left by that last answer: that is \$2 divided over the total lot treated.

Mr. ASHBOURNE: Of the 15,882 men treated, from how many vessels were they?

The WITNESS: 7,215.

Mr. ASHBOURNE: I understood that was the total number of vessels entered in the scheme?

The WITNESS: Oh, yes, I am sorry. 4,533 paid dues—that is, fishing vessels.

The CHAIRMAN: The 15,000 people treated came out of how many ships? Not how many ships paid the dues, or how many ships are in the scheme.

The WITNESS: I am sorry, we haven't got that figure.

The CHAIRMAN: The answer will be reported later.

Mr. RILEY: I wonder if Dr. Cameron could tell us if the regular hospitalization rates are paid to the various hospitals where these men are treated?

Dr. FROST: The answer to that question is that the sick mariners service has agreements with the various hospitals as to what shall be paid.

Mr. RILEY: They have special rates?

Dr. FROST: In certain cases they are special rates, and in other cases they are the regular per diem rates.

Mr. RILEY: In those ports where the Department of National Health and Welfare actually has hospitalization facilities don't they use them for the treatment of mariners?

The WITNESS: Yes, we do.

Mr. RILEY: That is what I was getting at with respect to these capital outlays.

The WITNESS: Well, we have hospitals at Sydney and Quebec.

Mr. RILEY: There is one in Saint John?

The WITNESS: Sydney and Lunenburg; that was my mistake.

Mr. RILEY: There is one in Saint John isn't there, in connection with part of the immigration?

Dr. FROST: That is a different service entirely.

Mr. RILEY: But it is operated by the Department of National Health and Welfare?

The WITNESS: We have the three services operated by the same group, so that there are three items in our estimates.

Mr. RILEY: From the standpoint of economy, in the port of Saint John last summer, between the months of May and probably November, they had about

16 immigrants go through that particular division. Now, as it is kept fully staffed at all times, why could not that hospital also be used for the treatment of mariners and thereby effect some measure of economy to the benefit of those who are paying into it?

Dr. FROST: The immigration hospital last year was not operating in that time.

Mr. RILEY: It was closed down?

Dr. FROST: It is closed down for the summer months. The clinic operated, but not the hospital.

Mr. RILEY: Do you not have a staff there consisting of doctors and nurses and attendants?

Dr. FROST: They have other work to do besides the work of the immigration.

Mr. RILEY: Is their work increased during the summer months?

Dr. FROST: Oh, no, it is decreased markedly, and the staff is decreased.

The CHAIRMAN: When you say they have other work, do you mean for other departments, or other work within your department?

Dr. FROST: They work within this department.

The CHAIRMAN: What type of work are they performing? We have a member who has said he thinks there are too many men for the work, so the witness can give us an answer as to whether he considers they were overstaffed or overworked, or what?

Dr. FROST: Last year the hospital was closed at the end of the navigation season, and the doctor who helped out the port doctor was sent back to Quebec.

The CHAIRMAN: And the extra work they performed during that time, could we have an idea of what it was?

Dr. FROST: That is ships clearance for quarantine purposes and examining veterans, civil servants, and various things of that nature.

The CHAIRMAN: My only point is to have the record complete.

Mr. RILEY: There you have modern hospital facilities not being put to use by the department during the summer months. Could that not be used to the advantage of the fishermen during the summer months? And could that not be operated more economically than it would cost to send them to the regular hospitals?

The WITNESS: Our staff, Mr. Chairman, is moved summer and winter between Quebec and Saint John in conformity with the opening up of the Saint John port for the winter season, and, as Dr. Frost has said, during the summer those doctors go back to Quebec because the St. Lawrence is very busy and they are required there. I have not looked into this in detail, but I strongly suspect if we operated that hospital we would have to employ additional staff to do so, and it is questionable whether that would be an economical move or not.

Mr. RILEY: Could it be investigated?

The WITNESS: Certainly.

Mr. FRASER: May I ask what per diem rate is paid by this department for the mariners?

The WITNESS: It varies from hospital to hospital and the agreement we have with them.

The CHAIRMAN: Could you give us an example rate?

Dr. FROST: In eastern Canada the average rate is \$7.50.

Mr. FRASER: What is it in the west?

The WITNESS: In some places we pay as much as \$14 a day.

Mr. KIRK (*Digby-Yarmouth*): That is what probably causes the deficit.

Mr. ASHBOURNE: Could we have a breakdown of the revenue and expenditures by provinces?

The WITNESS: Yes, Mr. Chairman, we can get that.

The CHAIRMAN: These figures will be sent to the committee and tabled with this report when it is printed.

Mr. BENIDICKSON: In the case of hospital fees for Indians: Do you do something similar in the case of making these agreements for miners?

The WITNESS: Yes, that is the idea.

Mr. FRASER: May I ask the Indian rate per diem? It used to be \$3.50 per diem. What is paid now for them?

The WITNESS: They vary just as widely as the rest I have quoted.

Mr. FRASER: Probably as high as \$14.50?

The WITNESS: Yes.

Mr. BROWNE: Those fishermen who operate for short seasons, are they eligible to come under these conditions?

Dr. FROST: Yes.

Mr. BROWNE: Even if they are operating daily from their ports?

Dr. FROST: That is right; all fishermen if they pay sick mariners' dues.

Mr. BROWNE: Are they aware of that?

Dr. FROST: I don't think they are.

Mr. BROWNE: I don't think so.

The CHAIRMAN: But they are covered while they are working, and not in the off season.

Mr. BROWNE: I understand that. I don't think they are aware that they are eligible.

Mr. GIBSON: It is only when they have to go to customs in order to clear deep sea or to clear form that the customs officer would make an assessment on it, otherwise they have to go to him voluntarily and say, "I want to pay the sick mariners fund"?

The WITNESS: This is not automatic. It is a voluntary thing for fishing vessels. The captain must elect to do it, but the payment is voluntary.

Mr. KIRK (*Digby-Yarmouth*): Is it not a fact that it is the custom where they have a smaller fishing boat with crews of 2, 3 or 4 that whenever they register their vessels that is the time they are in touch with the customs officer, and they then apply for the sick benefits?

Dr. FROST: That is correct.

Mr. KIRK (*Digby-Yarmouth*): That is, when they clear for the fishing and they make one entry a year and one clearance.

Dr. FROST: That is true. It must be paid at that time; otherwise they are not eligible to pay at all.

Mr. KIRK (*Digby-Yarmouth*): Dr. Cameron agreed to supply the committee with the receipts and expenditures by provinces. I wonder if when we receive that he would break down the receipts and expenditures so that we will know how much was received from the small fishing craft and how much from the larger foreign going vessels.

The WITNESS: Mr. Chairman, I have here a table of the collections and expenditures by provinces, not broken down into small and large vessels, however. I can provide that for your records, or read it out.

The CHAIRMAN: You can read it out.

The WITNESS: Newfoundland, the revenue for 1951-52, \$14,396.46, expenditure \$14,740. Prince Edward Island, revenue \$1,346, expenditure \$8,594.

Nova Scotia, revenue \$59,810, expenditure \$244,009. New Brunswick, revenue \$20,854, expenditure \$55,067. Quebec, revenue \$77,310, expenditure \$99,726. Manitoba, revenue \$1,638, and no expenditure. British Columbia, revenue \$83,200, expenditure \$171,342.

Mr. BENIDICKSON: Have you the information on the salaries?

The WITNESS: No, sir.

Mr. FRASER: Manitoba was mentioned on account of Hudson Bay. Ontario did not come into that scheme at all?

The WITNESS: In other words there were no ships docking. I imagine that is because of Port Churchill.

The CHAIRMAN: For Manitoba?

The WITNESS: For Manitoba.

Mr. BENIDICKSON: Ontario could not come in?

The WITNESS: There was no revenue reported from Ontario.

Mr. BROWNE: I would like to ask one or two questions about Newfoundland, where it almost balances. Has there been any literature distributed or any effort made to contact the fishermen to apprise them of this service which is available to them?

The WITNESS: No, sir.

Mr. BROWNE: Don't you think that you should take steps to notify the fishermen that they are eligible for this scheme?

The WITNESS: I don't know how to answer that, Mr. Chairman.

Mr. ROBINSON: They seem to be fully aware of it in Nova Scotia.

The WITNESS: I really don't know how to answer that.

The CHAIRMAN: It may be for the committee to suggest something.

Mr. BROWNE: I will take great care to see they know something about it soon.

Mr. KIRK (*Digby-Yarmouth*): Mr. Ashbourne put a question about certain figures, and since then the doctor has given it for the record, but rather than put a great deal more on the record I wonder if the doctor would mind giving a breakdown for Nova Scotia and see that I get a copy—not necessarily for the record.

The CHAIRMAN: Whatever one member gets, the others should get, so that if it is supplied it will be printed.

Gentlemen, do you feel we have covered this item fairly well?

Mr. GIBSON: Would our committee clerk take a note of that? I think possibly a recommendation from the committee would be very valuable.

The CHAIRMAN: Oh, yes, that is why we have these gentlemen here today, so as to have their views on it and to answer questions by members and when we get together with the idea of drafting a report we will have the verbatim report of their evidence and we will be able to come to a conclusion as to the kind of recommendation, if any, we put in our report.

I wish to express the thanks of the committee to the two witnesses for their co-operation, and they may now be excused.

The second item we covered was items 26 to 29 of the Auditor General's report dealing with the Veterans' Land Act. I understand the director, Mr. Rutherford, is here. Would he kindly come, with his assistant, to the table.

Mr. T. J. Rutherford, Director of Veterans' Land Act, called:

The CHAIRMAN: The questions were asked firstly by Mr. Fleming and Mr. Browne. We are at items 26 to 29 dealing with the Veterans' Land Act. You will find it on page 30 of number 1. I wonder, before we ask questions, if we may ask the witness—he has read, I understand, the evidence—to make a statement or say a few words on the matter.

The WITNESS: Mr. Chairman, I do not think there is anything involved in item 26, but in regard to item No. 27 which has to do with "Cost to Director" as charged to the veterans on Westbank Irrigation Project, there are a number of reasons why we find the expressed view difficult to accept.

The history of irrigation in both Canada and the United States discloses that major irrigation projects, by themselves, are incapable of assuming and retiring the necessary heavy capital charges in their entirety. It is now recognized that practically all large irrigation systems must be subsidized to the extent of part of the capital cost which is met indirectly by increased benefits to the country as a whole by reclaiming otherwise poor or non-productive lands.

If this principle had not been applied to the project in question, the resultant sale prices for individual lots would have been so high as to preclude not only the economical and practical settlement of veterans but of civilians as well.

In the project mentioned, the whole problem was carefully reviewed by a co-ordinating committee consisting of representatives from the provincial government of British Columbia, Producers' Associations, P.F.R.A. and V.L.A. The soil, possible crops and markets, estimated revenues and costs were all carefully analyzed and the director, V.L.A., in effect, contributed an amount which it was considered could be carried by the land. If the cost to the director had been placed higher, there is little doubt that the project could not have been accepted for the settlement of veterans since, in addition, they would still have to build homes and install water distribution systems both domestic water and water for irrigation before revenue could be expected from their land. We understand the amount charged to the director was ascertained in a manner similar to that employed in other schemes where civilian purchasers are involved.

The CHAIRMAN: Are there any further questions on this item? If not, we will pass on to the next.

The WITNESS: With reference to item number 28. Section 9A of the Veterans' Land Act requires that the proceeds from the sale of timber be applied by the director to the veteran's debt.

We have been given a legal opinion that where a contract for the sale of timber calls for the payment of the entire amount to the director, it must all be credited to the veteran's debt, even though the larger part of the amount received is represented by the veteran's labour and disbursements incurred in cutting, peeling and delivering the timber. This may represent months of work and considerable outlay.

To overcome this situation, V.L.A. have adopted a form of tri-party contract under which the purchaser pays the director the value of the stumpage as fixed by the district superintendent, Veterans' Land Act, and the balance (representing labour and disbursements) directly to the settler who has done the work and incurred the disbursements. We do not consider this in any way an evasion of the Act as the director receives all proceeds from stumpage at a price which has been fixed by his own representatives.

An amendment to the Act would appear, to us, to be advisable only in order to simplify administrative procedure. We did not think that such would materially simplify procedure as the tripartite agreement is not too complicated, for all we have to do, and it is a good form of contract. We do not consider it worth while having the Act amended.

Mr. GIBSON: You referred to timber cruisers, when you have to cruise timber do you engage professional timber cruisers to do the work for your department, or do you attempt to decide the value of the cut from the stumpage?

The WITNESS: I might say, sir, that in our department when we speak of pulp wood we think principally of the maritimes, and of the pulp wood there as about the only way it is bought is on a cut-peeled-and-delivered basis, the director is paid the stumpage equivalent to the pulp sold.

Mr. GIBSON: I was thinking of you as director, how do you assess the value of the stumpage? You take the crop and from that determine the stumpage, is that it?

The WITNESS: That is right, and we have fairly competent men doing that work.

Mr. STROJICH (*Acting Superintendent, Property Division, V.L.A.*): I would like to have the record clear with regard to the stumpage and how it is arrived at. It is arrived at on the basis of peeled pulp wood outside, ready for delivery.

The WITNESS: That is correct.

Mr. KIRK: I wonder if Mr. Rutherford could tell us how much that is per cord?

The WITNESS: It would vary considerably.

Mr. KIRK: It would vary with the locality?

The WITNESS: And the location. Timber that is close to the road or close to the water, is much more valuable than if it has to be hauled a great distance.

Mr. GAUTHIER: Could you give us the maximum price you get for it?

Mr. STROJICH: Oh, I would say that the maximum would be about approximately \$11 a cord.

The CHAIRMAN: Would you mind identifying yourself, sir?

Mr. STROJICH: W. Strojich, acting superintendent, property division, V.L.A.

The WITNESS: The stumpage would be considerably less on some pulp wood. It might be as low as \$3 a cord. That would be where it is hard to get at. Where it could vary all the way from \$3 a cord to \$5 a cord.

Mr. KIRK: How do you arrive at your dollar value figure on that?

The WITNESS: That would be delivered to the side of the road, properly peeled. In parts of the maritimes it would be considerably higher than that, quite recently it was as high as \$18 a cord.

The CHAIRMAN: Any further questions on this item, gentlemen? Then the next item in your memorandum is item 29.

The WITNESS: With regard to item 29, I would point out that subsection 3 of section 9 of the Act permits the conditional sale of chattels up to \$3,000 to a veteran who occupies land under a satisfactory rental agreement or is purchasing land other than from the director. The veteran is required to make an initial deposit of 20 per cent and repays 40 per cent with interest over a 10 year period, the balance being a conditional grant.

Because of the fact a veteran receiving assistance under this subsection would not necessarily be purchasing and operating land owned by the director, neither regulation 31 which requires personal operation of the land nor the agreement which covered the sale of chattels required that the chattels sold to such a veteran remain on the property or be used in his farming operations. Our form of contract has now been amended, however, by the addition of a covenant whereby the veteran agrees to retain, use and care for the chattels during each year of the 10 year period. As follows:

"The veteran agrees to commence immediately personal operation of any land which he may now or hereafter occupy under a rental or purchase agreement satisfactory to the director, and to continue personal operation thereof for ten years from the date of this agreement and, during that time to retain, use and properly care for the chattels sold to him under this agreement."

That is the new amendment which we have added to the contract. I think Mr. Sellar's point is well taken and we have corrected the situation. We have only had a few cases and have had no difficulty in protecting our security; I believe that in each case the veteran has found other land and carried on his operations.

The CHAIRMAN: Are there any further questions? I think that covers that item as far as these witnesses are concerned, and I would express the thanks of the committee for your co-operation, gentlemen.

Now, the next item on the Auditor General's report is item 31, page 1, concerning the purchase of radar equipment, and on that we have two witnesses from the Department of Defence Production.

Commander (L) E. J. Apps, R.C.N., called:

The CHAIRMAN: I see that General Pearkes is not in the committee today, but the witness has been supplied with the verbatim copy of the report from which to check the question which was asked.

The WITNESS: Mr. Chairman and gentlemen, I think a bit of past history of the process we went through in determining what type of radar would be procured perhaps would be useful to the committee at this point.

In 1949 an investigation was conducted to ascertain the suitability of the well known makes of commercial marine radars to meet naval requirements for a low-powered, high definition radar capable of detecting and discriminating between surface targets within the minimum ranges of certain high-powered military sets. For naval purposes this type of radar was designated as a H.D.W.S. (high definition warning surface) set and was intended to provide navigational facilities as well as detect close-in surface targets for tactical purposes.

The investigation was conducted with two distinct applications in mind as follows:

Large H.D.W.S. radar for major war vessels. The prime consideration for this application being that the equipment must be capable of integrating into the radar systems being planned for new construction ships. In order to do so the equipment is required to drive standard naval radar indicators.

Now, that is the large H.D.W.S. radar. The second part of the program was for the small H.D.W.S. radar for auxiliary vessels. In this application the equipment was not required to operate with any other radar equipment and the prime requirements were economical cost, small physical size, low power consumption and light weight.

These investigations commenced early in 1949 and actually continued on until about September in 1950 when the electrical engineer in chief made his recommendation to the naval staff.

The conclusions which were arrived at in this investigation covered the following manufacturers:

- Marconi LN-16;
- Canadian Arsenal 268 Mariner;
- General Electric type MN-3A;
- Westinghouse type MU-1;
- R.C.A. Victor CR-101A;
- Sperry MK. 2.

In the original investigation we took on and carried through covered most of the field but eventually we went back and covered the Cossar marine radar.

Our conclusions in this respect can be summed up as follows: in a modern major fighting ship it is essential that information obtained from the various radars fitted be displayed on remote indicators positioned at numerous tactical positions throughout the ship. Since standard naval indicators are costly and comparatively large it is essential that the quantities employed in each ship be reduced to a minimum. In this regard a radar distribution system has been designed for R.C.N. new construction ships which allows any remote indicator fitted to display information from all surveillance radars installed. By means of switching, a remote indicator can be connected to any of the surveillance radars fitted.

In order to integrate the H.D.W.S. radar into this system, it was necessary to select a type whose design characteristics were compatible in so far as possible with R.C.N. radar indicators of military design. The Sperry radar is the only commercial equipment currently available which can drive standard naval indicators without considerable modification of re-engineering, and it was primarily for this reason that the Sperry equipment was selected as the standard R.C.N. large H.D.W.S. set. This equipment has operated satisfactorily with as many as seven naval remote indicators connected.

If an equipment had been selected which could not easily be adapted to drive the naval repeaters, special remote indicators would have to be purchased resulting in considerable duplication, waste of space, and additional unwarranted expense.

The operational results obtained with the Sperry radar particularly in ships assigned to operational theatres has more than justified the navy's decision in this matter. Maintenance difficulties have been at a minimum and the equipment has been used for many and varied purposes.

Mr. BENIDICKSON: I take it, Mr. Chairman, that the criticism is not based on the merits of the particular type of equipment purchased but I think it refers to the method, the need or the urgency of trying to get something through at the end of the fiscal year without the calling for tenders.

The CHAIRMAN: That was the item—I beg your pardon, General Pearkes asked a question: why it was, instead of having it made by Canadian Arsenals, they bought it from private companies. That is the answer he has given to that. In case 2, Mr. Benidickson, the point is why he went out and purchased it at one time instead of another.

Mr. BENIDICKSON: Yes, and from a commercial agency without calling for tenders; in other words, the ordinary procedure was not followed.

The CHAIRMAN: That is right and it is based on the report given to the committee by Mr. Sellars.

The WITNESS: I do not think that is quite the case in respect to this particular equipment. It was determined that the Sperry was the only one in production that would meet the naval requirements; I mean, if they had gone out on tender there still would have been no answer. Sperry was the only one that would have the actual system of radar display required on the ship. The other sets, particularly the Mariner, which was the closest approach to the Sperry, would have required a complete re-design to build it for naval use and the delay was definitely not acceptable. There were urgent operational requirements for this equipment and it was the desire of the naval staff to get a number of them in quite a rush.

Mr. FULFORD: And I suppose the patents held by the Sperry company on this equipment was an item that could not be overlooked, and that virtually made it impossible for anyone else to make it because of the very high royalty basis?

The WITNESS: No, I do not think so. The schemes and processes used in this particular radar are common knowledge. I think that I am correct in saying there is no particularly patentable device on these Sperry radars.

Mr. FULFORD: Then it was purely a matter of type?

The WITNESS: It is purely a matter of the system that they go through to get the answer. It boils down to a system of data transmission from the main unit to the remote units, to remote units of standardized design; very expensive, as a matter of fact; the remote unit would cost you more than the actual radar equipment itself; and you must have a radar equipment that will transmit the information of these remote units in the correct form, otherwise you would have to build special remote units to work with each particular type of radar.

Mr. FULFORD: In other words, a Marconi set would not lend itself to adaptation to a standard remote indicator.

The WITNESS: Yes, Marconi is a good example. We had purchased the Marconi for the small ship H.D.W.S. radar, it is a light weight radar and does the job and it will go nicely into any small vessel you have; but it uses much the same system as the Mariner, although we cannot operate it with the standard remote naval indicator, in the small ship that does not matter because there is only one radar set for each.

Mr. FULFORD: Then there was a special reason for not calling for tenders. You knew there was no other manufacturer except Sperry who could deliver this equipment which you had to have for your remote indicator station system?

The WITNESS: That is right.

Mr. HARKNESS: The observation by Mr. Sellar was that if you are in need of it that you should have got prior concurrence of the Governor in Council and you did not do that.

The WITNESS: I think I have a letter from the Department of Defence Production covering that, if I may quote from it:

The observation of the Auditor General to the effect that this contract was placed without the prior concurrence of the Governor in Council is unwarranted inasmuch as this contract was placed pursuant to the authority contained in the Defence Supplies Act, Chapter 33, R.S. 14, George VI.

Mr. BENIDICKSON: You are quoting from what?

The WITNESS: The authority in question contained in paragraph (i) subsection (e) of section 6 of the Defence Supplies Act, reads as follows:—"A contract may be entered into by the minister without the approval of the Governor in Council if, in the opinion of the minister, the contract must be entered into immediately in the interests of defence?"

The CHAIRMAN: So, that is the answer of the department of the objection raised.

Mr. BENIDICKSON: What is the date of that?

The WITNESS: This is dated June 3, and is addressed to the electrical engineer in chief, and is from the director, electronics division, Department of Defence Production.

Mr. FLEMING: Is there anything on the record to indicate that that was the basis upon which this order was given?

The WITNESS: No, I think you would have to get the Department of Defence Production to answer that one, sir.

Mr. BENIDICKSON: Can you tell us the date on which that equipment was purchased? I mean, was it ordered before March 15? I was wondering when it arrived.

The WITNESS: That was March 15th, I believe.

Mr. BENIDICKSON: So it came in before the end of the fiscal year?

The WITNESS: Just under the line.

Mr. FULFORD: So then it did not have anything to do with the standardizing of equipment on Canadian naval vessels?

The WITNESS: It has a very definite aspect in that respect. I should perhaps have mentioned one other reason for the choice is that Sperry is primarily supplied for use on 115 volt, 60 cycle power which is standard voltage for similiar equipment in naval ships. On this point, previous to that, as you may know, it was D.C.—

Mr. FULFORD: D.C. 220 volts?

The WITNESS: Right, but now it is all 60 cycle, and the Sperry is a 60 cycle set whereas this other equipment, particularly Canadian Arsenals 268, which is 180 volts, 500 cycles; which would mean that you would have to have another rotary convertor on the ship, more rotating equipment, you would have a greater maintenance problem—you would have greatly added to the complexity of the problem in the multiplicity of voltages required, and on the ships today they are definitely standardizing, trying to get away from that sort of thing.

Mr. FULFORD: Mr. Chairman, I had a very special reason for asking that question because during the war I was on the H.M.C.S. St. Stephen, and we had occasion to go into San Francisco. There were quite a number of American vessels in the harbour of San Francisco at the time and we needed some equipment and we couldn't get it there and so we had to send to Canada and have it flown down to us from Vancouver. That was a good example to me of just how necessary it was to get some system of standardization introduced in both navies.

The WITNESS: That is exactly the problem that we are trying to lick.

The CHAIRMAN: All right. Are there any further questions on this?

Mr. FRASER: Mr. Chairman, according to the letter from Defence Production, just read, they could order anything without any reference at all, they would not need to call in any tenders at all.

The CHAIRMAN: Should we hear a witness from Defence Production?

Mr. FRASER: Well, that is the way it looks to me there—anything at all, if they were in a hurry to get it they would not need to call for tenders.

The CHAIRMAN: I do not think this witness would be the one to answer that question.

Mr. FRASER: No, no, and I would not ask him; but from what he read to us from the letter, I think I am right on that.

Mr. BENIDICKSON: Mr. Sellar quoted from a written request on the subject from the Department of National Defence to the Canadian Commercial Corporation, to point out that he emphasized that there was no revote for this amount of money. That is where that question arose. Did that written request also embrace the Canadian Commercial Corporation with the urgency of this equipment from the standpoint of operation?

The WITNESS: I cannot answer that offhand. I am sure he must have indicated the operational urgency. I have one letter here which I have just looked over which indicated an urgent operational requirement on one of the ships and one of these sets was on that order.

The CHAIRMAN: The evidence we have just heard from this witness sufficiently establishes that this was equipment of a sort that only one company could supply, convenient for the purpose which they had in mind.

Are there any further questions for this witness?

Then we will express the appreciation of the committee for the evidence he has given.

We have now a witness from the Department of Indian Affairs, the director of the Indian Affairs branch.

Mr. D. M. MacKay, Director, Indian Affairs Branch, Department of Citizenship and Immigration, called:

Mr. BOISVERT: Mr. Chairman, is the witness being examined in connection with page 3, item 39?

The CHAIRMAN: Item 39, page 3; that is right. Would the witness care to make a few remarks and then we will have questions later?

The WITNESS: Yes. I believe the witness, Mr. Chairman, before the committee at its last meeting made the statement that the Department of Indian Affairs was responsible for a delay in occupying the Copeland Building with the result that the government was required to pay rental for unoccupied space. He referred, of course, to the Department of Indian Affairs. There is not a Department of Indian Affairs; he intended to say the Department of Citizenship and Immigration of which the Indian Affairs branch is a part. I would say at the outset that the statement made by the witness is not in accordance with the facts, and because it is not in accordance with the facts it should not have been made. A brief history of the position of the branch in the matter I think should be given. In January, 1950 the branch approached the Department of Public Works for more suitable accommodation than we had at the time. For many years the branch was split up into four or five buildings in the city. It was difficult to administer the branch under conditions of that kind and an approach was made to the Department of Public Works for adequate accommodation. Now, that was in January, 1950. In February, early in February of the same year, we were advised by the Department of Public Works that the accommodation we had applied for in number 3 temporary building was not available and it was not until late in February or early in March that the department became interested in the Copeland Building.

Mr. BOISVERT: That is the Citizenship and Immigration department?

The WITNESS: Yes, the Department of Citizenship and Immigration. The whole matter was referred to the deputy minister and by him to the minister of the Department of Public Works. In March, I think it was March 13, the Public Works Department furnished the branch with plans for the Copeland Building and asked us to prepare a sketch plan setting out the accommodation we required. We set about this immediately and secured the information so that the required subdivisions of the accommodations could be made. The plan prepared by the branch was supplied to Public Works Department on April 5th following. Our responsibility ceased after that, with the exception of moving the branch into the building as soon as it was ready; and, indeed, as soon as the building was ready for occupation the branch moved in. On the 13th of March, 1951 the first division of the branch was moved in, almost a year after the plans were submitted. Now, that is the picture and that is the record, and we are not accepting any responsibility for any delay in the matter. I am not blaming anyone because I do not know who is responsible.

The CHAIRMAN: Are there any questions, gentlemen?

Mr. HARKNESS: The witness we had at the time, Mr. Sellar, suggested I think that Public Works were to blame. You will find, if you have the evidence there, Public Works being asked who was responsible for the delay

in using this building and in getting it occupied and the witness' reply, as I remember it was, that it was not the Public Works which had been at fault, that they had prepared the building but the department concerned had not moved in. Now, your evidence is that as soon as you were told that it was ready to move into you did move in?

The WITNESS: Yes, we did.

Mr. HARKNESS: I am quite happy that the Department of Indian Affairs is—

The WITNESS: The Indian Affairs branch.

Mr. HARKNESS: That your branch is not at fault in this matter actually; but I would think then that the Department of Public Works should be the people that we should have as witnesses here, that we should have had witnesses from them rather than from the Indian Affairs branch. Could we have them, Mr. Chairman?

The CHAIRMAN: If you would so move we will get them for you.

Mr. HARKNESS: The matter certainly has not been resolved.

The CHAIRMAN: If you feel that the matter is of sufficient importance that you want us to get them we will get someone from that department.

Mr. BROWNE: What happened after that? When did you move in?

The WITNESS: We were in there I think it was on March 15th. As a matter of fact, we were so anxious to get out of the old accommodation we were in that we were most diligent in meeting the requirements.

Mr. BROWNE: Are you the only branch or department in that building?

The WITNESS: There is only one other government department in the building that I know of and that is the Department of Mines and Technical Surveys, I think—the minister's office and the deputy minister's office are there.

Mr. BROWNE: They may know something about it then, they may be the department which was at fault. Do you know when they moved in?

The CHAIRMAN: The witness could only give you second hand information about that. I am sorry, but I should not think that he is competent to give you the answer.

Mr. BROWNE: But I think he could tell me when they moved in.

The CHAIRMAN: I think it would be easier for us to get it from Public Works. I do not think it would be right to ask a man from another department to give you that information.

Mr. BROWNE: I did not ask him when they took over. I asked him if he knew, and that is different.

The CHAIRMAN: I think it would be better, if there is anything hangs on the issue, to have it dealt with by someone from the Department of Public Works.

Mr. BROWNE: Do you think it is worth while to bring anyone over from Public Works? From Public Works just to answer that? Can he just not answer it?

The CHAIRMAN: Well, Mr. Harkness asked for them.

Mr. BROWNE: It might save time.

The CHAIRMAN: Do you think we should still have someone brought here from Public Works Department to give us that information, Mr. Harkness?

Mr. HARKNESS: He said that the Indian Affairs branch was at fault. Mr. MacKay says they were not at fault, that as soon as they were notified that the building was ready they moved in; therefore it must come under Public Works.

The CHAIRMAN: That is right.

Mr. HARKNESS: Otherwise, it may be that the fault is in headquarters of the Department of Citizenship and Immigration. He has not told us how or when he was authorized.

The WITNESS: No. As a matter of fact, I do not know that we were notified. I think that we moved in without notification just as soon as the divisions were completed. We wanted to make sure that we would get in there because there were a number of other departments looking for the same space.

Mr. FULFORD: You wanted to make sure of your squatters' rights.

The CHAIRMAN: The reason this witness is here is that Mr. Harkness suggested that perhaps we should have someone from the Indian Affairs branch to deal with this item in the report, and that it might make them more careful in future. It was he who suggested that we get someone from the department concerned, the Indian Affairs Branch, and that is why this gentleman is here. He has supplied us with the information. If you want a witness from the Department of Public Works we will get one for our next meeting.

Thank you very much, Mr. MacKay.

The CHAIRMAN: The next item is item 86 on page 24. On this I have a letter from General Pearkes which states he is satisfied, but since he sent it to me officially I think I had better have it on the record.

OTTAWA, May 30, 1952.

L. P. PICARD, Esq., M.P.,
Chairman,
Public Accounts Committee,
House of Commons,
Ottawa, Ontario.

Dear Mr. Picard: At the last meeting of the Public Accounts Committee, I asked a few questions concerning the audit of the Army Benevolent Fund.

The National Secretary of the Fund has sent me a communication (copy attached) in which he explains the reason for the heavy administrative costs during the year which was under review. I am perfectly satisfied with his explanation and, under these circumstances, have no desire to pursue the matter further, as you suggested might be done.

Should you feel disposed to read Mr. Chadderton's letter to the Committee, there would be no objection on my part to your so doing.

Yours sincerely,
(sgd) George R. Pearkes.

I understand Mr. Chadderton is here, so if he would come to the table he might read the letter himself and supply the information that was asked by General Pearkes.

Mr. H. C. Chadderton, Secretary, Army Benevolent Fund, called:

The CHAIRMAN: So as to have our record straight, would you mind starting by reading the letter which you sent to General Pearkes which he states satisfies him.

The WITNESS: This letter is to General Pearkes:

ARMY BENEVOLENT FUND

HEAD OFFICE,
OTTAWA, May 28, 1952.

Major General George R. Pearkes,
V.C., C.B., D.S.O., M.C.,
Member of Parliament,
House of Commons,
Ottawa, Ontario.

Dear Sir: Further to our telephone conversation of May 28, I am providing herewith a statement concerning the observation made in the Public Accounts Committee on May 27, 1952, with reference to the administrative costs of \$63,095.06 in comparison with expenditure for assistance of \$183,854.26 for the fiscal year ended March 31, 1951.

Part I—Administrative Expenses 1950/1951

(1) Organization Costs:

An estimated 10 per cent of the administrative expenses was occasioned by organization costs and should not recur, inasmuch as the organization of the Fund was completed during the fiscal year. Moreover, it has been necessary to utilize the regular administration of the Fund in the task of organization during the first two years and it will be evident that, when this organization is completed, this administration can be directed towards the matter of rendering service from the Fund.

(2) Continuing Administrative Expenses:

It has been incumbent upon the Fund to (1) provide for an efficient administration; (2) take adequate precautions regarding security of monies; (3) avoid over-dependence upon other agencies in order to prevent sacrifice of control of responsibilities; and (4) to provide voluntary committees with an executive-type secretary who can accept responsibility for administrative and other duties. These Committees consist of prominent business and professional men.

(3) Financial Assistance:

In comparing administrative costs with financial assistance for the fiscal year 1950-51, it might be appropriate to consider that the disbursement program of the Fund could not be fully developed during the year, although in the final quarter it is significant that expenditures increased very considerably. Attached is a chart showing the consistent rise in disbursements of the Fund to March 31, 1952.

(4) Referral, Representation and Debt Adjustment Service:

In addition to the \$183,854.26 in direct financial assistance, the administration of the Fund was responsible for the procurement of \$25,204 from other resources and for reduction of accounts in the amount of \$80,123, making the total assistance rendered \$289,181.04. The assistance from other sources and the reduction of accounts was possible due to the activities of administrative officials of the Fund in making referral and representations to other sources and in negotiations with creditors in the matter of debt adjustment.

Part II—Expenditures 1951/52.

The disbursement program of the Fund continued to develop in the 1951/52 fiscal year and I am including hereunder an excerpt from the Financial Statement:

EXPENDITURE

Assistance to or in respect of Veterans:

(1) Direct Financial Grants	\$395,427.45
(2) Referral, Representation and Debt Adjustment Service	32,936.46
	<hr/>
	\$428,363.91
Administrative Expenses:	40,222.91
	<hr/>

Total Expenditure\$468,586.82

Moreover, during the 1951/52 fiscal year, the provision of Referral, Representation and Debt Adjustment Service resulted in procurement for veterans and dependents of \$45,667 of financial assistance from other agencies and \$119,221 of contributions from creditors as the value of accounts reduced.

Accordingly, in addition to direct financial assistance of \$395,427.45 the Fund was responsible for an additional \$164,888, making a total assistance rendered of \$560,315.45.

Yours very truly,

(Sgd.) H. C. CHADDERTON

National Secretary,

Army Benevolent Fund.

The CHAIRMAN: Are there any questions, gentlemen?

By Mr. Fleming:

Q. How are administrative costs running?—A. \$40,000 last year.

Q. Are you operating on the fiscal year or the calendar year?—A. We are operating on the fiscal year, ending at the 31st of March, 1952.

Q. You have provincial committees, haven't you?—A. Yes.

Q. To help you supervise the work?—A. No, the responsibility of the provincial committees of the fund is purely adjudication, that is, to say "yes" or "no" in connection with the applications.

Q. You have a board here in Ottawa too?—A. Yes. It is not quite correct to say the board is in Ottawa: General Murchie is the chairman and he is here, but there are four other members, one in New Brunswick, one in Quebec, one in Saskatchewan and one in British Columbia. Actually speaking, they are not on a geographical basis, but that is the way they were appointed. That board is responsible for the supervision and administration of the fund generally, but it is not responsible for adjudication. If the request is over \$300 the committee still approves or rejects it, but if the committee wishes to approve it must get authority from the board.

By Mr. Browne:

Q. May I ask the witness if there is such a committee in Newfoundland in St. John's?—A. The answer to that is "no". Under the Army Benevolent Fund Act only those veterans who served in the Canadian army are eligible, and there are approximately 1,500, we understand, in the province of Newfoundland who are eligible to apply. The board so far has set up an administration under the D.V.A. district office in St. John's and also a separate

administration under the army area. We have been attempting to get publicity and tell eligible veterans who wish to apply that they should send their applications to the Department of Veterans Affairs, the Unemployment Insurance Commission, the Veterans Land Act, or the Canadian Army Welfare Committee, and that application will be channelled through to Ottawa for adjudication. The board plans to set up a committee in Newfoundland as and when the need occurs, but at the moment we have had no applications and the machinery has been in effect for more than two years.

Q. But they are eligible, are they?—A. Oh, yes, certainly, those who served in the Canadian army during World War II are eligible.

Q. Those who served in Newfoundland's own forces are not eligible?—A. No. The history of that is quite interesting: the NAFFI in England turned over a sum of money to the Newfoundland government—it was either the government or the Great Wars Veterans Association, which operated before becoming the Legion—and that was held to be administered as a benevolent fund for persons who served in the Newfoundland regiment or in the Royal Artillery.

Q. They also raised funds of their own down there, and I knew they had a committee looking after that. I was wondering whether they came under this.

By Mr. Kirk (Digby-Yarmouth):

Q. You read a lot of figures quickly: What was the \$80,000 in connection with in 1951?—A. The figure of \$80,000, Mr. Chairman, is the figure for reduction of accounts. Perhaps I should explain that: When the Army Benevolent Fund takes a case it is usually a \$400 or \$500 or \$600 problem. The committee gets the case, and through our secretary we work out a plan of assistance. In many cases it is obvious the veteran is in, shall I say, a bankrupt state. We go to the creditors and say: "We have an appropriation to spend on behalf of this veteran of \$250 and we make them an offer of 60 cents on each dollar, and they are usually very happy to accept it

Q. You had another item of \$395,000?—A. The figure of \$395,000 is the direct financial grants for the 1951-52 year.

The CHAIRMAN: Are you satisfied, gentlemen?

I wish to express the thanks of the committee to the witness, and if it is agreeable to the committee the committee will stand adjourned at the call of the chair. There is one more witness that was asked at a previous meeting and it is in connection with Northern Transportation. The chairman is out of town, and the officials think he might be the proper person to come, so as soon as I can contact that witness I will have another meeting.

The committee adjourned.

HOUSE OF COMMONS

Sixth Session—Twenty-first Parliament, 1952

Government
Publications

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

CHAIRMAN—Mr. L. PHILIPPE PICARD

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

(Including Second and Final Report to the House.)

TUESDAY, JUNE 17, 1952

THURSDAY, JUNE 26, 1952

WITNESS:

Mr. E. P. Murphy, Deputy Minister, Department of Public Works.

CORRECTION

At page 93 of the official report of evidence taken on Tuesday, June 3, 1952, in the fifth paragraph thereof attributed to Mr. Strojick, substitute the name of Mr. Kirk (*Digby-Yarmouth*).

Mr. Kirk (*Digby-Yarmouth*): I would like to have the record clear with regard to the stumpage and how it is arrived at. Is it arrived at on the basis of peeled pulp wood outside, ready for delivery?

Also, at page 98, in the 8th and 10th lines thereof, substitute "case III" for "page 3", wherever the latter word and numeral appear.

REPORT TO THE HOUSE

The Standing Committee on Public Accounts begs leave to present the following as a

SECOND AND FINAL REPORT

Your Committee reviewed all the items of the Auditor General's Report for the year ended March 31, 1951.

The Auditor General, Mr. Watson Sellar, and the Assistant Deputy Minister of Finance, Mr. R. B. Bryce, were in attendance during three meetings and gave evidence on all matters that retained the attention of the Committee.

To satisfy themselves as to certain items of the Auditor General's Report your Committee heard, during two meetings, the following witnesses, named in their order of appearance:

Dr. G. D. W. Cameron, Deputy Minister, Department of National Health and Welfare;

Dr. W. H. Frost, Assistant Chief, Quarantine, Immigration Medical and Sick Mariners Division;

Mr. J. T. Rutherford, Director, Veterans' Land Act;

Mr. W. Strojick, Superintendent of Property Division, Veterans' Land Act; Commander (L) E. J. Apps, R.C.N.;

Major D. M. MacKay, Director, Indian Affairs Branch;

Mr. H. C. Chadderton, Secretary, Army Benevolent Fund;

Mr. E. P. Murphy, Deputy Minister, Department of Public Works.

Your Committee wishes to express its appreciation of the help and co-operation of these officials.

Your Committee is of the opinion that the Government should entrust to an interdepartmental Committee the task of considering the advisability of charging to all departments of the administration and all Government agencies the cost of rental and upkeep of all the properties and office space occupied by them and that the report resulting from such study be sent to the Public Accounts Committee at a future Session for consideration.

A copy of the Minutes of Proceedings and Evidence of May 6, 20, 22, 27, June 3, 17, and 26 is appended hereto.

All of which is respectfully submitted.

L. PHILIPPE PICARD,
Chairman.

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS, Room 430,
TUESDAY, June 17, 1952.

The Standing Committee on Public Accounts met at 4.00 o'clock p.m. The chairman, Mr. L. Philippe Picard, presided.

Members present: Messrs. Ashbourne, Benidickson, Beyerstein, Boisvert, Cloutier, Fleming, Fournier (*Maisonneuve-Rosemont*), Fraser, Fulford, Gibson, Harkness, Kirk (*Antigonish-Guysborough*), Kirk (*Digby-Yarmouth*), Macdonald (*Edmonton East*), McCusker, Picard, Riley.

In attendance: Mr. E. P. Murphy, deputy minister of Public Works Department.

Before proceeding with the Order of the Day, Mr. Macdonald (*Edmonton East*) made a correction in a question attributed to him in the official report of the evidence heard on Tuesday, May 27, at page 76. (See today's printed report of evidence.)

Whereafter, the Committee resumed consideration of the Auditor General's Report for the fiscal year ended March 31, 1951.

Mr. E. P. Murphy was called. The witness was questioned in connection with Item 39, case III, at page 14 of the aforesaid report. At the conclusion of his examination Mr. Murphy was thanked by the chairman and was retired.

It was agreed that there was no necessity of hearing evidence on Item 105, at page 31 concerning Northern Transportation Company (1947) Limited.

The Committee, from then on, met in camera to consider a report to the House on its findings and conclusion.

At 5.15 o'clock p.m., the Committee adjourned to the call of the Chair.

HOUSE OF COMMONS, Room 497
THURSDAY, June 26, 1952.

The Committee met in camera at 4.00 o'clock p.m. The Chairman, Mr. L. Philippe Picard, presided.

Members present: Messrs. Anderson, Boisvert, Brisson, Browne (*St. John's West*), Cloutier, Fleming, Fraser, Fulford, Gibson, Helme, Jutras, Kirk (*Digby-Yarmouth*), Macdonald (*Edmonton East*), Major, McCusker, Picard, Sinclair, Sinnott.

The Committee considered a draft-report to the House.

After some discussion the said draft report was adopted unanimously and ordered to be presented to the House as the Committee's Second and Final Report.

The Chairman thanked the members for their co-operation and in turn Mr. Fleming expressed to the Chairman the members' gratitude for his efficient and fair conduct of the Committee's deliberations.

Mr. Fleming said that his motion also extended to the Clerk of the Committee for his helpful contribution.

At 4.30 o'clock p.m. the Committee adjourned *sine die*.

ANTOINE CHASSÉ,
Clerk of the Committee.

EVIDENCE

JUNE 17, 1952.
4.00 p.m.

The CHAIRMAN: Gentlemen, I see a quorum. Before we start the meeting I understand Mr. Macdonald has a correction to make.

Mr. MACDONALD: Mr. Chairman, I have before me the minutes of the proceedings of evidence No. 3 of Tuesday, May 27. Therein I gave a gentleman's name and I notice it is written as "Broadwick" and it should be Mr. F. W. Broderick. The other gentleman I mentioned is the president and is Mr. W. J. Bennett. Thank you very much. That is a correction to page 76 of the record.

The CHAIRMAN: Now, gentlemen, we have with us this afternoon Mr. Murphy, Deputy Minister of Public Works who is being called in connection with item 39, case III of the Auditor General's report, that is pages 13 and 14 of the Auditor General's report.

A previous witness was heard concerning this evidence, Mr. D. N. MacKay, director of Indian Affairs branch of the Department of Citizenship and Immigration. Resulting from his evidence it was suggested we should have before us the deputy minister of Public Works to make comments on this case that was reported in the Auditor General's report.

Mr. E. P. Murphy, Deputy Minister of Public Works, called:

By the Chairman:

Q. You have read, Mr. Murphy, the evidence both of the proceedings of the committee and the evidence by Mr. MacKay on this matter. Have you any comments to make to the committee?—A. Yes, the two statements, one made by the Auditor General and the other made by the director of Indian Affairs, both deal with the question of the Copeland building—one that it was leased through a syndicate for a specific purpose and the other that it took a considerable time to fit it up.

I would like to explain in a memo our viewpoint on the actions that actually took place as shown by our own files and as done by ourselves. The story of the leasing of the Copeland building is as I will give it to you at present.

November 5, 1951.

MEMORANDUM:

Re: Copeland Building—Ottawa

About the middle of 1950 when the Korean situation was developing requests were made to this department by different war departments asking for large areas of additional space, and a survey of the city showed definitely that there was no space immediately available apart from that known as the Copeland Building then nearing completion, with several floors available for immediate occupation. At this time we had absolutely no spare space either government-owned or rented, and in order

to protect ourselves and to have available space for anticipated rapidly expanding war departments we took three leases on the Copeland Building as follows:

Whole fourth, fifth and sixth floors—lease to commence July 1, 1950

Whole second floor, and space on third floor, with space in basement—lease to commence August 1, 1950

Whole ground floor—lease to commence December 1, 1950

The department was obliged to take these leases at the dates mentioned as otherwise the owner had other applications and was not prepared to hold out any longer. The rate was favourable and it was decided to accept the proposal.

At this same time the department also had many urgent requests for space for the non-war departments and had made a very comprehensive study of a series of moves which would have resulted in the newly created departments of Citizenship and Immigration—

That is Mr. MacKay who was here the other day.

—Mines and Technical Surveys and Resources and Development, being allotted space in already owned or rental premises so as to centralize their services.

Studies were made of the different arrangements to make the best use of the space in the Copeland Building, but it was decided that the proper procedure would be to use it for non-war departments and so make available to war departments space adjacent to that already occupied by those departments in various buildings.

Accordingly the fourth, fifth and sixth floors of the Copeland Building were allotted to the Department of Citizenship and Immigration—Indian Affairs Branch. Plans were prepared for the construction of partitioning, installation of a ventilating system, lighting, telephones, call bells, etc., and a contract was let on November 10, 1950. This work was completed on March 1, 1951, and the space was occupied on that date. Thus a series of moves were started which resulted in space in Temporary Buildings 1 and 2 being occupied by the Department of Defence Production.

The space on the second and part of the third floor of the Copeland Building was originally allotted to Live Stock Records. This would have made a building on Queen Street available to a war department and would have allowed for required expansion of the Records. Plans had been prepared for this move.

After careful re-study it was decided to move the senior administrative offices of the Department of Mines and Technical Surveys from No. 2 Temporary Building and to allot space for them in the Copeland Building. This change made space available to the Department of Defence Production and allowed that department to house its rapidly expanding services. Plans for partitioning, ventilation, telephones, call bells, painting, etc., were prepared and a contract was awarded on April 30, 1951. This work was completed and the space occupied on June 30, 1951.

The space on the ground floor was allotted, after careful consideration of the requests of numerous departments, to Mines and Technical Surveys so as to help in the consolidation of that new department's offices and to make available space in No. 8 Temporary Building for the Department of National Defence inspection offices, and in turn free space in No. 2 Building for Defence Production. After plans for these moves were prepared a contract was awarded and the Department of Mines and Technical Surveys occupied the space in the Copeland Building on June 30, 1951.

The leasing of space in the Copeland Building was necessary for the protection and housing of government services. The time lapse between

date of lease and occupation of the space was due to intricacy of the many moves necessary at that time and awarding of contracts and completion of the work required.

In June, 1950, we had requests for 109,000 square feet of space for the regular departments, exclusive of those dealing entirely with the war, and it was certain that with conditions such as they were then that the demands of the latter were bound to be great. It was, therefore, considered advisable as a protective measure to take the only space available at the time and to hold it unallocated until such times as the situation clarified sufficient that we could properly determine just which department could use the space to best advantage. In considering best advantage it was felt that space adjacent to war departments should be free for the contemplated expansion of these departments, and that this new space should be given the continuing departments who could use it to better advantage. It is further practically impossible to operate with every square foot of space occupied as there is always a demand for additional temporary space to be used by commissions, boards, meetings and so forth, which are established from time to time and who require space to carry on in the capital.

E. P. MURPHY,
Deputy Minister.

Now, we did not take the Copeland building for any particular purpose. It was general space which we did not decide to allocate until we saw the the way things developed. We do that regularly.

By Mr. Fleming:

Q. If I remember correctly, the director of the Indian branch had something to say about receiving no notification from your department; they just moved in when they saw the space there but at no time were they notified officially that it was available for them?—A. They could not do that.

Q. As I recall he says that is what they did?—A. He gave us the plans and we made alterations to suit them. They moved in within fifteen days of the time we said it was ready.

Q. I have not got a copy of the evidence of that last meeting before me but I have the distinct impression that the point he was trying to make was that they had received no notification from the Department of Public Works that the space was there available for them and when they saw it there they went in on their own?—A. We would not let them do that. We tell them that it is ready and we make good and sure that nobody moves in in that way. I think he inferred there that they moved in quickly.

By Mr. Benidickson:

Q. I think I asked the question. We had practically finished all the evidence and he was saying that any lapse of time from the original availability of the premises to their walking in was not the responsibility of his department?—A. That is right.

Q. And I only pointed out that we had not yet heard from the witness the actual date that he was told that the premises would become available and he said in rather a jocular way: "Well, I do not think we got any notice."

Mr. HARKNESS: "We found the space was available and we walked in."

Mr. BENIDICKSON: I got the impression he meant that as soon as he was tipped off it was ready they walked in.

Mr. FLEMING: This is what was said. I have the page, page 100:

Mr. HARKNESS: Otherwise it may be that the fault is in headquarters of the Department of Citizenship and Immigration. He has not told us how or when he was authorized.

The WITNESS: No. As a matter of fact, I do not know that we were notified. I think that we moved in without notification just as soon as the divisions were completed. We wanted to make sure that we would get in there because there were a number of other departments looking for the same space.

Mr. BENIDICKSON: He means partitions and so on.

The CHAIRMAN: He said here that they were notified on April 5 there was space available and that they supplied their plans for the layout.

The WITNESS: Here is the log, sir, that will clear your point.

Space taken July 1, 1950. Alterations advertised September 15, 1950, tenders issued October 11, authority for acceptance of tenders by order in council dated November 3, tenders accepted November 10, work completed March 1, Department of Indian Affairs moved in March 15.

That is our own log.

By Mr. Harkness:

Q. Well, as I understand this item that you read, this loss of \$70,000 which Mr. Sellar reported, you would attribute or look upon as a form of insurance?—A. Absolutely.

Q. In order to secure the building?—A. Sure.

Q. Well, would it not have been possible to get people moving in and be making use of this space considerably more rapidly than was actually done? It seems to me a rather expensive form of insurance in order to make sure that you have the space?—A. You see, sir, if you have 4 million square feet of space for yourself that we own and 1,500,000 rented and the war comes along and the demands for 109,000 square feet ahead of you from non-war departments—

By Mr. Ashbourne:

Q. One and a half million you said rented?—A. 1,760,000. You cannot do anything but take it. That was the only piece of space in the place. We had to have something because you have a demand all the time for different set-ups.

By Mr. Harkness:

Q. I do not think there is any question about whether the space was needed. The whole question was as raised by Mr. Sellar's report that this space was secured and not occupied with the result that \$70,000 in rent was paid out to no good purpose.—A. You would have that anyhow, sir. You have to have a cushion, something to lean against.

Mr. McCUSKER: Do you need a cushion before the building is completed?

By Mr. Fleming:

Q. Mr. Sellar says in his report at page 14: "This is a new building and the agreements provide that the Government install and pay for the interior partitions, etc., required. Various dates were designated for rent payment purposes, the earliest being July 1, 1950, but in only one instance was there actual occupancy by departmental staff in the fiscal year. Approximately \$70,000 was expended while there was no physical occupancy by departments

for which the space was leased.”—A. We did not take it for any particular reason; we took that just for space and we did not know who we were going to put into it. We were going to put in a war department, ordinarily you would expect it would be but we made a re-study of the situation and we decided that the better thing to do was to move people away from war department and put them into this space thereby making available space for war department staffs adjacent to space already occupied by war department. That is the point in the whole thing.

By Mr. Riley:

Q. Mr. Chairman, I wonder if the deputy minister would not tell us that perhaps this is the normal procedure not only in Ottawa on their space but all over the country?—A. That goes for all operations for large amounts of space.

Q. You have to have space available in order to have it available when it is needed?—A. Certainly, what could we do in Ottawa with a threatened war and demands from ordinary departments for 109,000 square feet of space.

By Mr. Benidickson:

Q. On that subject of demand for 109,000 square feet, I imagine you always check that to decide whether or not there is merit in the demand?—A. That falls our way. We use a rough yardstick on that, the number of people they have and the space available, the cost of fitting it up. We take for granted—not exactly take for granted but after questioning, what the demand is, how it compares with occupancies for similar services in other branches; in other words, we keep a control as far as we can of the demand and the requirements of those who know their own problems best.

Q. But the discretion and control is within the Department of Public Works?—A. That is right.

Q. It is not interdepartmental?—A. No.

By Mr. Gibson:

Q. From what level does the demand come? Is it from within the department who decide they want 25,000 feet or where does it come from?—A. It varies entirely with the volume. If it is a small amount we get it from a director, a larger amount we get it from a deputy and if it is a very large amount we get it from the minister. After we have accepted it from a technical standpoint, from an economic standpoint and made the recommendation they are asked to provide the funds.

By the Chairman:

Q. I imagine before the Department of Public Works decides they have to have the request in writing by a deputy minister of the department concerned?—A. By the deputy or director of the branch, as the case may be. Now, we cannot take all that for granted; we have to add them up, investigate them and check to make the best allocation we have particularly where you are so tight for spare space.

By Mr. Benidickson:

Q. But the Treasury Board sometimes do say no?—A. Oh yes, that is their right and privilege. That is where you get the approval by order in council.

By Mr. Harkness:

Q. How much of this spare space do you keep on hand normally?—A. It will vary with what demand there is ahead of us.

By Mr. Fleming:

Q. How much have you available right now, Mr. Murphy? You are speaking of Ottawa, I take it?—A. Yes. There is at present ahead of us a demand for 500,000 square feet that we know of. Now, we expect to get Tunney Pasture, 285,000, a new building. Central Mortgage and Housing will be moving to their new building and that will give us a space in No. 4 of 107,000 and then we have arrangements to provide the difference in the Temporary Buildings No. 1 and No. 8.

By Mr. Harkness:

Q. My question was what is your present cushion? What is the amount of the space that you are just holding empty to see who is going to go into it?—A. We have around 80,000 right now. Some is temporarily occupied now with a commission—there is the Saskatchewan Commission in occupation.

By Mr. Fleming:

Q. Is that to say there is no vacant space at the moment in the Ottawa district?—A. There may be around 30,000 today but there is not much more.

By Mr. Riley:

Q. It would be spread out, though?—A. Oh yes, we have no large blocks anywhere.

Q. The only thing unusual about this Copeland building was that it was all contained in one building and that has made it stand out?—A. I do not know that it stands out.

Q. It was a large vacant building?—A. Well, I wanted to take the whole building. You see, as the building was going up it was standing up there like a lighthouse in the fog and I said to our crowd: "Look, with the demands that are ahead of us and not a square foot of space to work on, we had better look around and see if we can corner that building." We tried to corner the whole building but we found the owner had previous commitments. Then we started to take a space on the top three floors and we took them in July, then in August we took another floor just to keep a cushion. If we did not have that space vacant we would have had some other space vacant. You cannot operate with such a tremendous amount—5 million square feet and no cushion.

By Mr. Fleming:

Q. Well, the Auditor General— —A. I do not know where he got that from at all.

Q. He draws attention in the next paragraph to another case. Apparently he thought there was reason to bring it to our attention by putting it in his report. He says: "Notice is drawn again to the subject because of the risk inherent in a practice where one department finances the cost of a service for the benefit of another without any guarantee of reimbursement of its outlays." —A. That point is all right.

Q. I gather that the Auditor General was inviting attention to a practice which he considers wrong and his view is that if the charge were made to the department concerned and did not fall on the Department of Public Works that the department concerned would be a little more careful not to have the space wasted or to be asking for space before they are ready to take it?—A. That is our own department's viewpoint.

Q. You would rather see a change in the basis of assessing costs against the department?—A. Yes, I have always maintained that those departments asking for space should be made to get their own money, then turn it over to

us and we will get them the space. Then they would be more circumspect about asking for it. That case he refers to is not in Ottawa; it is in St. Catharines.

Q. I think he is putting it in here just because: "Here is another case concerning a practice we drew attention to three years ago that I think is wrong." What is the reason for the present practice of charging these costs to your department?—A. It was started away back in 1867 when Confederation was enacted when the Public Works was enumerated as being the department to look after the public works and from that time on there is no charge made by Public Works to any other departmental organization for space.

By Mr. Fraser:

Q. Nor for telephone?—A. Nor for telephone.

By Mr. Fleming:

Q. You think we have outgrown that practice, if there ever was anything good to be said for it, and the time has come when every department should be charged for the space it occupies?—A. I feel, sir, if every department were charged for the space they occupied, they would be more restricted in asking for liberal amounts of space.

Q. It is not hard to convince us of that. It is easy for any department to make lavish demands for space when it is not going to be charged against them in their estimates; it is going to be charged against your department?—A. That is right and where we can keep an over-all hand on them and tell them it is our money: "Now, you have got to conform to the rules of the service for which you want that 75 feet per person or 100 feet per person" depending on the service for which they want it.

Q. You are satisfied that things like this would be much less likely to arise if we had that different basis of charging?—A. Not in Ottawa. We have to have that cushion no matter what happens in Ottawa. The other case, that is the St. Catharines case, of course, was a case where a specific amount was demanded for a specific purpose. In St. Catharines the space was taken for a specific purpose but in Ottawa it was taken as a cushion.

By Mr. Benidickson:

Q. I gather your cushion is something like a man whose wife is going to have a baby; he has to have a new room?—A. Yes, but in our case the baby has arrived and is hanging around in the woodshed.

By Mr. Fleming:

Q. Do you think the government would save money by changing over to the system you recommend now?—A. I would not say "recommend".

Q. You may be in favour of it?—A. I always thought it would tend to save demands and branches and other organizations when they see spaces available trying to improve by going into them. You have quite a time convincing certain people who see certain space available which is the right size for them or somebody else. He cannot guess the cost of fitting that up and it costs quite a bit, particularly these laboratory buildings where you have to go and put in plumbing and all that sort of thing.

The CHAIRMAN: I was wondering if the fact that it is done through the Public Works is not a further check on that. If they were to get space themselves and go and ask for a vote in the House their only check would be the Treasury Board. Well, now they have the officials of Public Works who have their own budget, who want to keep it down as far as possible and who discuss with these people who try and locate their space. If they are the only ones

to judge whether they could have bigger space or not they could come to the House and get their own votes. Of course, it is my own view, as we are expressing views, that it is a check if they have to go through Public Works. As it is now Public Works has got to keep its budget in line and they must be very careful not to give too much to each department requesting space.

Mr. FRASER: But, Mr. Chairman, if it were put the other way and the department had to apply and was made to pay for their space, it would be very much less and to put it another way then you would know exactly what the cost of each department was and at the present time no one knows.

The CHAIRMAN: You are right.

Mr. FRASER: I have been saying that for some years in the House of Commons because I think that each department should be charged for the space it rents, for the buildings they occupy.

The CHAIRMAN: As to the knowledge we have you are right. Whether it would be a better check when they got the money themselves or Public Works is another thing.

Mr. FRASER: There would be a check anyway because Public Works would have to secure it for them.

Mr. FLEMING: I think the check in truer accounting is quite possible there.

By Mr. Fleming:

Q. I wonder, Mr. Murphy, if you can indicate to us how we can have the benefit of the double check, that is to say, the check by your department plus the check by the department asking for space by making them responsible for paying for it?—A. It has its pros and it has its cons and I always thought we would have a scheme to work it that they would request this space from us. We get it. We charge them back and they pay for it. I think that would answer your question.

Mr. FRASER: You would have two checks then instead of one.

By Mr. Fleming:

Q. Your department would not continue to check in a case like that? —A. You cannot possibly let them go out and arrange for their own space.

By Mr. Harkness:

Q. You would still keep the cushion, would you?—A. You would have to.

By Mr. Fraser:

Q. They would be stepping on your toes too, perhaps?—A. You would have to because the demand is too great with 4,800,000 and 1,600,000 on your back all the time but to answer your question I think the proper procedure is they make the request for the space and they tell us what is required, we estimate what it costs and take the lease and in that way you are not letting each department complete with owners. After we are through with it, bill it to them. Now, the bill, as you say, runs their accounts up and it runs the cost of their department higher.

Q. Wouldn't you have a truer picture?—A. You would have a truer picture.

By Mr. Fleming:

Q. What else is there besides office and building space and telephones that are paid for by your department on behalf of all other departments? —A. Furniture, janitor service, cleaning, heating. A large building accommodates so many departments the distribution of heating would be impractical.

You would have to analyse that very carefully to see how much of a split would be required to break it down to the point at which you would want it. It would be a question of going over it carefully.

Q. You would have to set up another accounting department?—A. We would not want to do that.

The CHAIRMAN: Are there any further questions?

By Mr. Harkness:

Q. How much space did this \$70,000 that Mr. Sellar reported represent?—A. 51,940 square feet.

Mr. FLEMING: For how long?

By Mr. Ashbourne:

Q. Is that the three leases?—A. Yes, one was for the first of July and occupied on March 1, one was taken on August 3 and moved in June 30, the other was taken December 1 and moved in June 30.

Q. What is the rate?—A. \$2.35.

Q. \$2.35 a square foot?—A. Yes.

By Mr. Fraser:

Q. Mr. Chairman, Mr. Murphy said Citizenship and Immigration went into the Copeland building. That is what you got it for?—A. We did not get it for them; eventually we gave it to them.

Q. Well, Citizenship is not all in there yet?—A. We are not going to put them all in—just this branch. They were really sufferers there. All the departments like to be self contained but it was more essential that we make space adjacent to war department for war use. Therefore, we took the Copeland building and we pieced it out. We used that as a piece to work against.

By Mr. Riley:

Q. What did you do with the Booth building?—A. The National Health moved in there.

By Mr. Fraser:

Q. Citizenship, they are also in the Woods building which used to be Defence?—A. Yes.

Q. There are so many of them it makes it rather awkward for the members because they are in one building today and another building tomorrow and you never know just where to send anybody.

Mr. ASHBOURNE: Use the telephone.

Mr. FRASER: You might use the telephone today and tomorrow it might be in a different place.

By Mr. Fleming:

Q. Did you ever have anybody state that they had too much space and they could give you some of it?—A. Never in our life. I should not say that. We did when they were breaking up the war department. We used to ask them to notify us when units of 1,000 feet were available and we would get the over-all picture from that and we would try to take maybe this over-all picture of 20,000 or 30,000 feet whatever we would get and departments would take it up as quickly as possible and leave space for the next person coming in. It is a continuous performance.

By the Chairman:

Q. You have had from time to time departments stopping some of their activities which must have turned their offices back like the Department of Interior, the Department of National War Services, etc.—A. Perfectly right.

By Mr. Fraser:

Q. Your temporary buildings down here that used to be Munitions and Supplies, what have you got in there?—A. Defence Production.

Q. All together?—A. And Trade and Commerce. You see, in the temporary buildings, 1, 2, 3 and 4, there is Trade and Commerce entirely, there is Defence Production, there is Central Mortgage and Housing and there is the Air Service branch of the Department of Transport.

Q. And Defence are out of there?—A. National Defence never had very much in particular there; they were in the army building on Cartier square, the army, navy and air force building and then the old Woods and Canadian building on Slater street.

By Mr. Boisvert:

Q. Mr. Chairman, I am right to say that in many cases your department has to secure a legal occupancy despite the fact that there is no physical occupancy?—A. That is right.

Q. Was that not the case in that Copeland building?—A. Same thing. We had to take it as I read in the memo here:

The department was obliged to take these leases at the dates mentioned as otherwise the owner had other applications and was not prepared to hold out any longer.

That is the answer to your question.

The CHAIRMAN: Well, gentlemen, this was the particular item on which we called Mr. Murphy so I am expressing the thanks of the committee to him for his presence.

There was another item at the last meeting about which we were supposed to get a witness. That was concerning the Northern Transportation Company, their rates in western Canada, and I got in touch with the chairman, Mr. Bennett, who was supposed to be here today and then later on I understand the member who had asked the question, Mr. Harkness, got in touch with Mr. Bennett and said that he did not need the witness before the committee and that is why Mr. Bennett is not here.

Mr. HARKNESS: Mr. Bennett had to leave, as a matter of fact, to go out west or something and I had about an hour and a half or two hours' time with him and saw scores of pictures of these boats and had the whole thing explained and I thought there was no need for him to come before the committee.

The CHAIRMAN: Gentlemen, we will assume the committee is informed through you so we will get it through "endosmosis" if I might say. So, we are left to consider the possibility of a draft of a report. I think the committee from this moment will sit in camera in order to consider the possibility of arriving at a report to be sent to the House.

(The committee continued in camera.)

APPENDIX "A"

June 24, 1952.

A. CHASSE, Esq.,
Committee Clerk,
Public Accounts Committee,
House of Commons,
Ottawa.

Dear Mr. CHASSE:

On June 3, 1952, when I appeared as a witness before the Public Accounts Committee I was requested to supply information regarding the operation of the Sick Mariners Service in the province of Nova Scotia. The information for the calendar year 1951 follows herewith:

Revenue and Expenditure

Vessels Paying Sick Mariners Dues
Province of Nova Scotia—Calendar Year 1951

Vessels	Revenue	Expenditure
Fishing	\$ 5,706.68	\$100,020.71
Foreign	58,069.59	45,492.33
Coasting	1,621.95	6,049.04
Government	395.86	10,848.31
Total	<u>\$ 65,794.08</u>	<u>\$162,410.39</u>

Yours very truly,

G. D. W. CAMERON, M.D., D.P.H.,
Deputy Minister of National Health.

on 1956
HOUSE OF COMMONS

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Third Session—Twenty-second Parliament

1956

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STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: CHARLES A. CANNON, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

(Including First Report to the House)

THURSDAY, MARCH 8, 1956

THURSDAY, MARCH 15, 1956

WITNESS

Mr. Watson Sellar, Auditor General of Canada

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956

STANDING COMMITTEE

On

PUBLIC ACCOUNTS

Chairman: Charles A. Cannon, Esq.,

Vice-Chairman: A. J. P. Cameron (*High Park*), Esq.,
and Messrs.

Anderson	Hanna	Mitchell (<i>London</i>)
Applewhaite	Harkness	Mitchell (<i>Sudbury</i>)
Argue	Henderson	Monteith
Ashbourne	Hollingworth	Noseworthy
Balcer	Holowach	Nowlan
Balcom	Houck	Pommer
Beaudry	Kickham	Poulin
Boisvert	Kirk (<i>Antigonish-</i>	Power (<i>St. John's West</i>)
Breton	<i>Guysborough</i>)	Proudfoot
Bruneau	Laflamme	Regier
Cavers	Leduc (<i>Jacques-Cartier-</i>	Rowe
Cloutier	<i>Lasalle</i>)	Schneider
Denis	Maltais	Thomas
Fulton	McGregor	Tucker
Goode	McLeod	Van Horne
Hamilton (<i>Notre-Dame-</i>	McWilliam	Weaver
<i>de-Grâce</i>)	Menard	Zaplitny

Antonio Plouffe,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
THURSDAY, January 26, 1956.

Resolved,—That the following Members do compose the Standing Committee on Public Accounts:

Messrs.

Anderson,	Hanna,	Mitchell (<i>London</i>),
Applewhaite,	Harkness,	Mitchell (<i>Sudbury</i>),
Argue,	Hees,	Monteith,
Ashbourne,	Henderson,	Noseworthy,
Balcom,	Hollingworth,	Nowlan,
Beaudry,	Holowach,	Pearkes,
Boisvert,	Houck,	Pommer,
Breton,	Kickham,	Poulin,
Bruneau,	Kirk (<i>Antigonish-</i>	Power (<i>St. John's West</i>),
Cameron (<i>High Park</i>),	<i>Guysborough</i>),	Proudfoot,
Cannon,	Laflamme,	Regier,
Cavers,	Leduc (<i>Jacques-Cartier-</i>	Schneider,
Cloutier,	<i>Lasalle</i>),	Thomas,
Denis,	Macdonnell,	Tucker,
Fulton,	Maltais,	Van Horne,
Goode,	McLeod,	Weaver,
Hamilton (<i>Notre-Dame</i>	McWilliam,	Zaplitny—50.
<i>de Grâce</i>),	Ménard,	

(Quorum 15)

Ordered,—That the Standing Committee on Public Accounts be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

FRIDAY, March 2, 1956.

Ordered,—That the Public Accounts, Volumes I and II, and the Report of the Auditor General of Canada for the fiscal year ended March 31, 1955, be referred to the said Committee.

WEDNESDAY, March 7, 1956.

Ordered,—That the name of Mr. Rowe be substituted for that of Mr. Macdonnell; and

That the name of Mr. Balcer be substituted for that of Mr. Pearkes, on the said Committee.

THURSDAY, March 8, 1956.

Ordered,—That the said Committee be empowered to print from day to day 800 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence and that Standing Order 66 be suspended in relation thereto.

Ordered,—That the said Committee be given permission to sit while the House is sitting.

WEDNESDAY, March 14, 1956.

Ordered,—That the name of Mr. McGregor be substituted for that of Mr. Hees on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

THURSDAY, March 8, 1956.

The Standing Committee on Public Accounts begs leave to present the following as its

FIRST REPORT

Your Committee recommends:

1. That it be empowered to print from day to day 800 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence and that Standing Order 66 be suspended in relation thereto.

2. That it be given permission to sit while the House is sitting.

Respectfully submitted,

Sgd. Charles A. Cannon,
Chairman.

(The said Report was concurred in by the House this day.)

MINUTES OF PROCEEDINGS

THURSDAY, March 8, 1956.

(1)

The Standing Committee on Public Accounts held its organization meeting at 11 o'clock a.m., in Room 277. Mr. Charles A. Cannon, Chairman, presided.

Members present: Messrs. Applewhaite, Balcom, Boisvert, Breton, Cameron (*High Park*), Cavers, Cloutier, Fulton, Hamilton (*Notre-Dame-de-Grâce*), Harkness, Hees, Hollingworth, Holowach, Kirk (*Antigonish-Guysborough*), Laflamme, Leduc (*Jacques Cartier-Lasalle*), McLeod, Mitchell (*London*), Mitchell (*Sudbury*), Monteith, Nowlan, Pommer, Poulin, Power (*St. John's West*), Regier, Rowe, Schneider and Tucker—(29).

The Chairman expressed his appreciation for having been elected to preside the deliberations of the Committee.

The Orders of Reference, dated January 26 and March 2 were read.

The Committee proceeded with its routine business.

On motion of Mr. Applewhaite,

Resolved,—That the Committee ask permission to sit while the House is sitting.

On motion of Mr. Balcom,

Resolved,—That the Committee ask leave to print from day to day 800 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence.

On motion of Mr. Cavers,

Resolved,—That the Chairman and nine other members, to be selected by the former, compose the Sub-Committee on Agenda.

The Committee discussed future meetings.

On motion of Mr. Fulton,

Resolved,—That the Committee call Mr. Watson Sellar, Auditor General of Canada as its first witness.

On motion of Mr. Nowlan,

The Committee adjourned to the call of the Chair, it being 11.25 a.m.

THURSDAY, March 15, 1956.

(2)

The Standing Committee on Public Accounts met this day at 11 o'clock. Mr. Charles A. Cannon presided.

Members present: Messrs. Anderson, Applewhaite, Argue, Balcer, Balcom, Beaudry, Boisvert, Cameron, (*High Park*), Cavers, Cloutier, Fulton, Goode, Hamilton (*Notre-Dame-de-Grâce*), Hanna, Harkness, Henderson, Hollingworth,

Holowach, Kirk (*Antigonish-Guysborough*), Laflamme, Leduc, (*Jacques Cartier-Lasalle*), Maltais, McGregor, McLeod, McWilliam, Menard, Mitchell (*London*), Mitchell (*Sudbury*), Noseworthy, Nowlan, Pommer, Poulin, Power (*St. John's West*), Regier, Rowe, Thomas, Tucker, Van Horne, Weaver, Zaplitny—41.

Also present: Mr. William Benidickson, Parliamentary Assistant to the Minister of Finance.

In attendance: Mr. Watson Sellar, Auditor General of Canada.

The chairman presented as follows, the First Report of the Subcommittee on Agenda:

"The Subcommittee on Agenda held a meeting in Room 497.

Present: The Chairman and Messrs. Applewhaite, Balcom, Breton, Cameron (*High Park*), Harkness, McLeod and Noseworthy.

Your Subcommittee recommends:

1. That the Committee commence its business by hearing the Auditor General of Canada on Thursday, March 15, pursuant to the motion of Mr. Fulton passed on March 8 at the organization meeting, and by examining Mr. Sellar on his report for the year ended March 31, 1955, as contained in Volume I of the Public Accounts (1955) referred to the Committee.

2. That meetings be held on Tuesday, March 20 and Thursday, March 22.

3. The election of a Vice-Chairman in the person of Mr. Cameron (*High Park*)."

On motion of Mr. Applewhaite, seconded by Mr. Anderson, the above report was adopted.

Mr. Watson Sellar was called and examined on his Report on Public Accounts to the House of Commons for the year ended March 31, 1955.

It was agreed that certain matters pertaining to finance be deferred until a later date when the Deputy Minister of Finance will be asked to appear before the Committee.

At 12.45 p.m. the examination of Mr. Sellar still continuing, the Committee adjourned until Tuesday, March 20.

Antonio Plouffe,
Assistant Chief Clerk of Committees

EVIDENCE

THURSDAY, MARCH 15, 1956.

The CHAIRMAN: Order. We have a quorum so I suggest we get down to business. Since our last meeting the subcommittee on agenda has met and has made a report which I would ask the clerk to read:

(See minutes of proceedings)

The CHAIRMAN: May I have a mover for the adoption of the report.

Mr. APPLEWHAITE: Could we have the list of those present read again?

The CHAIRMAN: Those present at the subcommittee meeting? They were the Chairman the Messrs. Applewhaite, Balcom, Breton, Cameron (*High Park*), McLeod and Noseworthy.

Mr. APPLEWHAITE: Mr. Harkness was there.

The CHAIRMAN: Yes, he was there. I am sorry. With that correction may I have a motion for concurrence?

Report agreed to on the motion of Mr. Applewhaite seconded by Mr. Anderson.

The CHAIRMAN: Gentlemen we have with us this morning Mr. Watson Sellar, the Auditor General of Canada. I propose, if it is the wish of the committee that we go through Mr. Sellar's report paragraph by paragraph. Mr. Sellar is here to answer any questions which may be asked by members of the committee. I think you all have copies of the report. It is in volume 1 of the Public Accounts but we also had it distributed to all the members of the committee in booklet form. We shall begin with paragraph 1.

Mr. Watson Sellar, Auditor General of Canada, called.

The CHAIRMAN: Are there any questions on paragraph 1?

No questions.

Paragraph 2?

By Mr. Nowlan:

Q. On paragraph 2, I notice the phrase "by means of comprehensive tests of vouchers". I would just like to get an idea of the system that is followed with regard to these comprehensive tests of vouchers. I know it must be a physical impossibility to check every expenditure made and I was wondering what system is followed, particularly in the Department of Public Works where work is sometimes done without contract. Let us suppose that, in my own riding for example, a building is being constructed. Are all the vouchers for that particular building checked by your department. What system do you follow in making the check?—A. Mr. Chairman, in reply to that question—the Department of Public Works is a very satisfactory example—I may say that every voucher is examined in detail first by the comptroller of the treasury staff before any payment is made. Prior to that the vouchers are of course considered by the department. We come in after the payments are made. We do not examine every voucher. That would be physically impossible; it

would be a duplication of effort and an unnecessary cost. We make a selection by types of accounts, the record of the contractors and any special circumstances that might have arisen during the performance of the contract. We do not examine every contract. We make a selection. We keep men constantly engaged on the audit of public works accounts. They are located in the Hunter building along with the department. We also send men into the field to make examinations here and there across the country, but the bulk of our work is done in Ottawa. In addition we have men to check the stores, the issue of stores and so on, and to check the equipment of the department as assigned to the various contractors.

We pay particular attention to contracts which we call day labour jobs because there is no fixed price on them, and their cost is to be determined as work progresses. Actually, during the course of a year we review in detail a very substantial part of the outlays of the Department of Public Works, but in relation to the total number of vouchers our examination may not exceed 10 per cent.

Q. How many men do you have on the staff?—A. I have no staff assigned particularly to one department, so I will give you the number of the staff as a whole: about 140 people.

Q. And you say 10 per cent of the actual jobs would be, perhaps, audited by your department?—A. Yes, but in the case of a very small department where there is not really a balancing of responsibilities and where one man may have to make decisions regarding both spending and the approval of the vouchers, we examine the situation more closely. That is in a quite small department.

Q. Those are all the questions I have, Mr. Chairman.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. On that same point, the government accounting system generally, irrespective and leaving aside for a moment the audit by the treasury department, does operate a system of internal check for these expenditures?—A. Yes, Mr. Chairman. In some departments of course it is very elaborate; the Post Office and National Revenue departments are examples of departments where there is a very elaborate control section; National Defence also, and to a lesser degree other departments have it. But, they are only responsible for the regularity of our commitments and as a whole they do a very good job. That is why we can get along with about 140 people. The accounts are well kept.

Q. Mr. Sellar did mention some departments in which the authorization for the expenditure and verification of the subsequent amount of the invoice would stem from the same person. That, in effect, means there is not a system of internal check within that particular operation?—A. That is correct, sir, but you have to bear in mind they are not spending a great deal of money and the cost would not be out of proportion. Let us take the chief electoral officer; between elections he has only a few people and they have to do everything.

Q. Could you identify for us the government operations where there is no internal check?—A. That is an independent check? Am I right when I say that?

Q. Yes. I am eliminating the treasury department check and your own.—A. Yes.

Q. And I am seeking information as to the individual departments in which there is no internal check within the department itself.—A. I would not like to try to list them because I might be unfair. I would say a little department such as the International Joint Commission where they have a very small staff on the administrative side since it is a technical job. I doubt if they have much; or if the Board of Transport Commissioners have much

because they have only a few expenses. It is merely salaries and it would not pay them to go to the expense of having several people employed just to check the accounts. The head of the department and some of the senior people have to take that responsibility.

The CHAIRMAN: Is it not a fact that even in some of the small organizations there is always some kind of a check?

The WITNESS: Yes; but I understood the question to be an independent check.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Yes.

Mr. BALCOM: In the case of National Defence there is an independent audit which goes around to all the independent branches, for instance Vancouver and Halifax, and checks their accounts; that is, they come from Ottawa?

The CHAIRMAN: Is that a fact?

The WITNESS: Yes, sir. The head of the internal audit was an officer of the audit office. He was transferred there. He is a very high class fellow and he has a staff of 100 people travelling all the time and we are provided with copies of all their reports.

The CHAIRMAN: Are there any other questions on paragraph 2?

By Mr. Mitchell (London):

Q. Mr. Chairman, Mr. Sellar mentioned that selection was made of the individual operations which he was going to delve into. How is that selection made? Is it just a case of drawing it out of a hat or is there any basis for the selection?—A. No, sir. It is based on experience and watching the transactions as they flow through. An auditor, while he is not supposed to be a detective, is expected to have a suspicious mind.

The CHAIRMAN: If there are no more questions on paragraph 2, we shall proceed to paragraph 3.

Paragraph 4?

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Mr. Chairman, I have a question in that connection. This, of course, refers to non-tax revenues in the consolidated revenue fund. Is that correct?—A. Yes.

Q. I refer back now, in order to give you the background for my question, to the proceedings of this committee in 1951. There we find, on page 23, a statement first in the form of a question by Mr. Macdonnell in which he says:

I suppose there is a case where money could be paid to Canada, such as by a foreign government purchasing munitions in this country, or anything of that kind, where the money would just go like other money into the consolidated revenue fund, or is it conceivable that you might have a separate fund for moneys which were in no sense that of this government?

That is the end of Mr. Macdonnell's question, and it is followed by Mr. Clark, the Deputy Minister of Finance at that time, who says:

If there was a contract or, let us say an agreement, under which that money would be paid to us to be used for the purchase of defence equipment for a foreign government, I think it would be money paid to Canada for a special purpose. It would be public money in that sense and it would go into the consolidated revenue fund but it could be disbursed for the specific purpose without further appropriation by parliament.

That is the end of my quotation. Does that agree with your understanding of the situation?—A. Yes. The financial administration Act provides for receiving money for special purposes, holding it in the consolidated revenue fund and re-spending or spending it for that particular purpose. Actually, sir, you quote Mr. Macdonnell as referring to a purchase of armaments or something like that from another government. Currently that would pass through Canadian Commercial Corporation accounts rather than the government accounts.

Q. But there is nothing, let us say, to prohibit it?—A. I would prefer putting it in a very simple term which we understand. A farmer wants to get a pure bred animal and asks the Department of Agriculture to pick one out for him. He sends the price for that to the department and the department pays it out. That is a very simple transaction and while it flows in and out of the consolidated revenue fund it is not recorded as an expenditure.

Q. On what authority would that money which has come in be disbursed?—A. Under the authority in the section of the Financial Administration Act.

Q. There would not be any special warrant?—A. No. It would come in and be deposited in the usual way to the credit of the Receiver General and the comptroller of the treasury would issue the cheque in payment.

Q. You would not find it necessary in connection with transactions of that kind to draw the attention of this committee or the attention of the house to it in your annual report?—A. No, because it is not taxpayer's money.

The CHAIRMAN: It is money received for a special purpose?

The WITNESS: Yes.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): That is the one point I want to make. It seems to me it is conceivable that a department of the government might engage in transactions which would be of interest to parliament in one respect or another without them necessarily coming under the immediate surveillance of parliament, or the immediate regard of parliament, under such a provision. I think I can cite specifically because the question is raised in this particular paragraph, the question of some arms to foreign governments. If a foreign government wishes to enter into an undertaking with the federal government for the procurement of arms here in Canada they can turn over money; those arms could be procured through the aegis of the federal government and they would be paid for and the transaction would not necessarily come under the scrutiny of parliament. Is that not correct?

The CHAIRMAN: Where do you see the reference in this paragraph to the shipment of arms?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I am referring to my previous remarks in which I quoted in connection with the receipts of this kind from the report of 1951 where specific reference was made to this type of transaction.

The CHAIRMAN: Well, of course, Mr. Sellar has not been assigned here to give evidence about the 1951 expenses or disbursements. It is only the public accounts for 1955 which have been referred to us, and I wonder if your question is in order under the circumstances.

By Mr. Applewhaite:

Q. Does not this paragraph 4 of the Auditor General's report refer to non-tax revenues and refer to moneys which are the property of the taxpayers of Canada as against moneys held in trust, such as received from a foreign government?—A. As I understand the question, non-tax moneys are moneys actually received for public purposes and therefore they are recorded in the revenues of the country. Moneys received for a special purpose, given by a

government to buy anything, or given by anybody to buy anything are not recorded in this as revenues, but if they are not disbursed by the year end—and so are being held—they are recorded in a special account and set up as a liability in the statement of assets and liabilities. They would appear there, but if during the year everything was cleared, there would be no appearance at all.

The CHAIRMAN: Does that answer your question, Mr. Applewhaite?

Mr. APPLEWHAITE: Not quite. The first line that refers to the \$321 million odd. Is all that money the property of the people of Canada, or is some of it merely held in trust, like for your farmer who wanted to buy—

The WITNESS: Oh, I am sorry, I misunderstood you there. The \$321 million is the property of the taxpayers of Canada.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. The explanation of that previous observation; the reason I draw 1951 into this discussion is that, at that time the committee was considering the Financial Administration Act and certain changes therein, and the financial administration of the government of Canada, and the audit of the public accounts and financial controls of corporations. Therefore, that is the act under which Mr. Watson Sellar I would think operates and draws his authority, is that correct?—A. Yes.

Q. And therefore I felt that a reference to that was quite proper. I was not trying to draw into the matter the individual proceedings of 1951. I was referring to the act, and my explanation of certain sections there, under which Mr. Sellar operates.—A. Yes.

Q. You see what bothers me?

The CHAIRMAN: Well, again Mr. Hamilton, in 1951 the Financial Administration Act had been referred to the committee, and the committee very properly studied the act then, but it is not referred to the committee this time. That has been referred to the committee so I will allow Mr. Sellar to answer it. However, there may be some relation between your question and the matter. Will you repeat it?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Essentially my question was; whether it would be possible for the federal government to engage in, say the purchase of arms for a foreign country as their agent, with the foreign government sending money to Canada, it going into the consolidated revenue fund, it being paid by the consolidated revenue fund for that purpose without it necessarily coming directly under the surveillance of parliament?

Mr. CHAIRMAN: Just a minute Mr. Sellar. I do not think, Mr. Hamilton, that that is—that the matter you are referring to now is within the terms of reference of the committee. We are here to examine the Auditor General's report for a specific period, and to examine the accounts for a specific period. I wonder whether it is proper for you to ask Mr. Sellar for legal opinions on hypothetical cases in the interpretation of the financial administration Act.

Mr. MITCHELL (*London*): Well, Mr. Chairman, we are considering non-tax revenues to the amount of \$321-odd million, and Mr. Sellar himself said that that does not represent the full intake or outgo from the consolidated revenue fund, and Mr. Hamilton's question is directed to the difference between the \$321 million and what the total intake and outgo may be.

Mr. BEAUDRY: Mr. Chairman, Mr. Sellar has already indicated that that sum would come under the heading of revenue and I think that answers the question.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): You see, Mr. Chairman, what I am directing attention to is this, under disbursements of non-tax revenues you have got quite an adequate breakdown in the public accounts. There is an analysis of all the disbursements which are made in accordance with the parliamentary vote. I take an interest, however, more than an interest in revenues, because it seems to me that in certain cases we are not getting, to the same extent, details of revenue that we were getting on the details of expenditures. Coming now, down to this specific paragraph, and I have tried to direct everything within the frame of this specific paragraph; you find only a generalized statement regarding this in Mr. Sellar's report under paragraph 4, and you find a further breakdown in table nine on page 25 in the explanation, but even there we finally come down to a fairly sizeable amount, not in relation to the total expenditures of the country, but, nonetheless, a fairly sizeable amount, for which there does not seem to be details of where it came from, as to the source. At the bottom of that there is an amount of \$3.2 million miscellaneous, and that—

The CHAIRMAN: What are you referring to exactly, Mr. Hamilton, \$3.2 millions?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): The \$3.2 million miscellaneous.

The CHAIRMAN: Not in paragraph 4. What paragraph are you—

Mr. HAMILTON (*Notre Dame de Grâce*): Oh, no.

The CHAIRMAN: We are supposed to be studying paragraph 4 as I understand it.

Mr. FULTON: It is page 25 of the public accounts which gives the breakdown, and the total \$321 million.

Mr. NOWLAN: Table 9.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I identified it before. Table 9 on page 25 of public accounts. Now, that gives the breakdown of the \$321 million that was referred to in paragraph 4.

The CHAIRMAN: Yes.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. We find \$131 million odd for the post office, \$133 million odd return on investments and that sort of thing; then we come down here to the bottom where we have got the item \$3.2 million miscellaneous. I find myself interested in that because of the point I brought out before, it is possible for money to go into the consolidated revenue fund and come out of it, which has nothing to do with parliamentary votes. Now, I can see where it would come out without the authorization of parliament, so we would know nothing about it, and the only way to find out about this money is to locate it going into the fund. Do you agree with me on that Mr. Sellar?—A. Well, of course, this table you refer to on page 25 of the public accounts is prepared by the Department of Finance, and they would be the people who could give you quite easily a listing of this \$3.2, how it is made up, but if you went through the departmental statements that follow, you will find the contents of the \$3.2 million made up of a large number of small items, special in nature, or of one sort or another under various departmental services. You would save time by questioning a Department of Finance man rather than myself, because they prepared that, and I don't know where they get the \$3.2 million.

The CHAIRMAN: Well, if it is the desire of the committee, after we finish with Mr. Sellar we can assign somebody from the Department of Finance and get the information for Mr. Hamilton.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Fine. I would just like to summarize my understanding so that I am quite clear on this point. It is possible for money to go into the consolidated revenue fund and to be paid out, which does not have the specific authorization of parliament?—A. No.

Q. I beg your pardon?—A. I would not say that, sir. The very large sum that you talk about would be represented by post office money orders, and postal notes. Now, they are authorized that system is authorized by the Post Office Act, and they would not they do not appear either as revenue or expenditures, and they run into very large sums of money in a year.

Q. Yes.—A. Then again, we have this general authorization in the Financial Administration Act which says that moneys received by or on behalf of Her Majesty, for a special purpose and paid into the consolidated revenue fund may be paid out of the consolidated revenue fund for that purpose, subject to the provisions of any statute applicable thereto. Now, that is a parliamentary direction and authorization; so I have to challenge you, sir, when you say, "Without authorization of parliament". There is that general power.

Q. But I was thinking to take your specific bull.—A. Yes.

Q. And I refer not to your words, but to the animal. There is a case where the money can be paid in and out without specific parliamentary authorization?—A. I would say so, yes.

Q. Where it would not come under the surveillance of parliament?—A. It would come under just what I have quoted to you.

The CHAIRMAN: Would it not be true, Mr. Sellar, that such a receipt of money would not be under the specific authorization of parliament, it would be money that was paid in voluntarily for a specific purpose, and earmarked for that purpose, and used for that purpose, and neither the receipt nor the disbursement would need to be authorized by parliament because it is paid in voluntarily by the taxpayer and used for that specific purpose, is that not so?

The WITNESS: That is my view.

Mr. HARKNESS: In this section there is interest on loans to national government, \$35,684,000. Looking at the table on page 26, table X, I see the United Kingdom is responsible for \$22·8 million, and other national governments \$12 million. What are these other national governments, and are any of those loans in default?

The CHAIRMAN: Have you the answer for that?

The WITNESS: Yes. Will round figures satisfy you, or do you wish them—

Mr. HARKNESS: No, round figures will be fine.

The WITNESS: France \$6,025,000; Netherlands \$3,179,000; Belgium \$1,-557,000; Norway \$376,000; Czechoslovakia \$624,000; Indonesia \$106,000. The only country that is in default is Nationalist China, and as a matter of fact Norway is paid in advance.

Mr. HARKNESS: How much is Nationalist China in default?

Mr. BEAUDRY: \$24,329,000, according to paragraph 63 on page 22 of the Auditor General's Report.

The CHAIRMAN: What page, Mr. Beaudry?

Mr. BEAUDRY: Page 22, paragraph 63 of the report before us.

The CHAIRMAN: Are there any more questions on paragraph 4?

By Mr. Noseworthy:

Q. I have just one question, Mr. Chairman. Coming back to the point raised by Mr. Hamilton (*Notre-Dame-de-Grâce*): just what audit is made of the amounts which are paid into the consolidated revenue fund and the amounts

paid out under the authority that you reported?—A. Again, the test is not a 100 per cent examination. But at the year end we have to reconcile the overall totals, and if there is any discrepancy between what the overall totals should show and what the records of the department record, we then check back to find it. It may be that in one department there is a 100 per cent examination while in another department the examination may be a very limited one. But everything is recorded in the accounts of the department.

The CHAIRMAN: Are there any further questions?

By Mr. Thomas:

Q. What provincial governments are included in this?

The CHAIRMAN: Would you mind repeating your question, please, Mr. Thomas.

Mr. THOMAS: I think I have found it now, thank you.

The WITNESS: It is the western provinces in connection with the settlement made in 1948.

Mr. THOMAS: I see.

The WITNESS: A list of the provinces that owe money is given on page 95 of the public accounts, schedule F.

The CHAIRMAN: Are there any further questions on schedule F, or on paragraph 4? If not, let us proceed to paragraph 5. Are there any questions on paragraph 5?

By Mr. Harkness:

Q. I am not quite sure what Mr. Sellar is getting at by saying that there should be perhaps a different classification, or that the thing would be clearer if this particular classification was omitted.

The CHAIRMAN: What classification are you referring to?

Mr. HARKNESS: That occurs at the end of this paragraph.

The CHAIRMAN: At the end of which paragraph? You mean paragraph 5? Thank you. I have not reached the end yet.

The WITNESS: My view is that with things as they are now, with expenditures of over \$4 billion, and with special receipts of a relatively small sum, it would be less confusing if you just threw them into an ordinary revenue statement, and not have special statements which might cause some people to wonder: why are these shown separately? I would just merge them in with the others. Immediately after the war it was a very large item, but now it is quite small.

By Mr. Harkness:

Q. What is the nature of these surplus crown assets which are now included in this \$25 million?—A. Do you want a summary of them?

Q. Just a very rough summary. As you said, at the end of the war this was a very big item because there were large amounts of surplus war materials, buildings, and so on being disposed of. But that situation has now come to an end, and I wonder what these items include now in view of your opinion that they should be not classified as special items any longer, but just come under the general revenue?—A. In 1946, for example, special receipts totalled \$650 million. That is why I say that it was a big item then, but now it is about \$29 million, and of that, \$13½ million represent instalments payable under agreements for sale for either plants and ships, or whatever you like to call it, as they are sold. Sales were made on the basis that the payments would be made over 10 or 15 years or so. That took \$13½ million.

Then some war time housing has finally been disposed of, and that provides \$4½ million. Out west we sold certain telegraph lines. I think these ran out of Prince George but I am not sure. They represented \$1½ million. The Wheat Board had two little surplus accounts, and both were around \$300,000. We received \$150,000 from the National Film Board being its profits in the previous year. They are just little items like that which now comprise the total.

By Mr. Fulton:

Q. I am not altogether clear on this matter either. I wonder if you would be kind enough to explain to me, or perhaps make a reconciliation of your statement starting in the second line of paragraph 5, with the total found on page 27 of the public accounts, table XI. You say that about \$25 million of the special receipts of credits represent proceeds on the sale of surplus crown assets, but that the amount should not be regarded as all inclusive, because \$5,058,000 of proceeds from other sales was included in ordinary revenue under the heading of non-tax revenues. By these words "other sales", do you mean sales of surplus crown assets?—A. Yes, sir.

Q. Then that \$5 million should be deducted from the \$25 million, and it would come out to \$20·5 million as shown on page 27. Is that the way in which it is arrived at?—A. I am sorry but I am not clear. That total on page 27 comes to the same figure as I have, \$28·8 million.

Q. Yes. In the breakdown of the total you show proceeds from the sale of crown assets as \$20·5 million. But in the first statement in paragraph 5 on page 3 of your report—you say about \$25 million of this is represented by proceeds of sales of surplus crown assets?—A. Yes sir.

Q. Let me ask you this: why is that \$5 million to be deducted? Was that not in effect sales of surplus crown assets?—A. No, it is not deducted. It is shown under another heading. We feel that the total amount was really \$34 million and not \$29 million, because you have \$5 million shown in a different statement. That is why I wanted to merge it all together so that there would be no guess work and you would find the exact total in one spot.

Q. I am confused again. You say that the \$25 million represents proceeds from sales of surplus crown assets; while on page 27 the proceeds from the sale of crown assets is shown as \$20 million.

The CHAIRMAN: Plus four and one half.

Mr. FULTON: Yes. Now I see.

Mr. BEAUDRY: The actual proceeds were around \$33 million?

The WITNESS: Yes, about \$34 million.

By Mr. Noseworthy:

Q. I think the point there is that at the beginning of paragraph 5 we are told that \$25 million of the \$28 million was proceeds from sales of surplus crown assets, whereas in the total on page 27, only \$20 million of the \$28 million is accounted for by proceeds.—A. No, sir; plus the \$4·5 million for the war time housing that was built by the war time housing corporation and which was really regarded as war activities.

Q. You mean that was included in the \$25 million in your paragraph 5?—A. Yes.

The CHAIRMAN: They are also crown assets. Are there any further questions on paragraph 5?

Mr. BEAUDRY: Mr. Chairman, can we clarify the total of \$28,839,000, the figure corresponding to the five or so words in the first line of paragraph 5, \$28·8 million?

The CHAIRMAN: Yes, that is so, evidently.

By Mr. Regier:

Q. Mr. Chairman, I think I know how the Auditor General works in regard to the expenditure of public funds. However, I am not clear on how far his authority extends when it comes to the disposal of Crown assets. Who assures the taxpayers of Canada that value has been received for assets sold? Is that solely under the jurisdiction of the department concerned or is that also included in the responsibility of the Auditor General? I have in my mind, at the present time the government is undertaking quite extensive sales of homes under Central Mortgage and Housing Corporation. Do we have to rely exclusively on the reports of that organization to assure that value is being received, or is that also within the jurisdiction of the Auditor General?—A. Well, the Auditor General has no responsibility for policy that is a decision vested in the executive. Only if a price were outrageous in relation to the value of it, I think would I ever have anything to bring to the notice of this committee. I certainly would not have any power to say it was wrong. But, actually, before any of those surplus assets are sold bids are always invited by public advertisement. And if it is in a large amount, the governor in council or the treasury board has to sanction the deal. So I think you are reasonably protected. And so far as the wartime housing you are referring to is concerned, this was housing built around munition plants in various parts of the country. But, at the end of the war the Wartime Housing Corporation was wound up and as a convenience Central Mortgage was assigned to take over the management and disposal of them. My understanding is—of course, I am not the auditor of Central Mortgage—but my understanding is they always try to sell to the occupants of those places if they want them. They fix their prices on the basis of the time the houses were built, the cost of them, the construction, their use since and what a fair going price is. Now, I do not think they are trying to make a big profit out of it, but rather in terms of the value to the fellow in the place. If he has kept it up well, they would like to see him get it.

Q. We have the Auditor General admitting some responsibility. He says if an outrageous price were asked, either high or low—I wanted to ask what procedure he has for a case of that kind coming to his attention—and he also mentioned they are not sold unless bids have been asked for—what means has he for the like of these things being called to his attention? Does he exercise some over-all supervision over these sales?—A. No, but we have access to all files, and we are auditors of the surplus Crown Assets Corporation, and, therefore, we are required to keep ourselves familiar with its activities. But, we do not try to say that we know better than the department concerned what is a fair price for a thing.

Q. Is it right to say then, that unless a claimant wrote into the Auditor General's department, the likelihood exists that sales could be made without bids being asked for or that an outrageous price could be asked for, either high or low, and a sale actually made, and it comes only to the notice of the Central Mortgage and Housing Corporation officials?—A. In a sense, sir, that is a hypothetical question. But, as to the direct question would we only know it if somebody writes in and complains to us, actually, I have never received a letter from anyone complaining about prices. As to our general knowledge, it is just a review of the files.

If you limit your question solely to housing, wartime housing sold, then, Central Mortgage is the authority that you should investigate to find out about that. If it is general, you have to bear in mind that in some cases there could be only one buyer, only one person would be in the market for that particular thing. And you do not need extensive advertising in a case like this.

By Mr. Fulton:

Q. Mr. Sellar, you have told us you are not the auditor for Central Mortgage and Housing Corporation?—A. Yes, sir.

Q. And they are now making all the sales of these houses whether war-time houses or built subsequently?—A. That is right, sir.

Q. So, they do not come under your jurisdiction in any way?—A. No, the act provides that two firms of accountants examine their accounts.

By Mr. Nowlan:

Q. Mr. Chairman, with respect to the Crown Assets Surplus Corporation, I would like to ask Mr. Sellar a question. What is the bookkeeping set-up with respect to assets which are sold by the Crown Assets Corporation? Perhaps I can illustrate it better by something that happened recently. The Crown Assets Surplus Corporation offered for sale assets which formerly belonged to the Department of National Defence. They were offered for sale in bulk—not in bulk, but there were 28 units advertised for sale, and, in fact, there were 15 particular sales of 28 units each. And, I presume, all these matters have been transferred over to Crown Assets Disposal Corporation before sold. After the sale was made and the purchaser bought them, the officer at the R.C.A.F. station where some of these were located said, "Somebody made a mistake, one of these units should not have been included." It was a very valuable one. Actually, there were 28 units which were not sold, and which are still, I presume, vested in the Department of National Defence. How does your bookkeeping system show a matter such as that in so far as the balance sheet is concerned? Are they still considered the property of the War Assets Corporation and not sold or transferred to the Department of National Defence?

Each of these items was worth about \$5,000, there was about \$100,000 involved. They were advertised for a year and then sold. Tenders were called for; and yet delivery was refused on bought and delivered, with 28 of these particular units, because they said someone had made a mistake. National Defence said, "They should never have been transferred to Crown Assets, they do not belong to them and we are going to keep them." I wonder if you had an experience such as that, and what the situation is as far as your records are concerned.

The CHAIRMAN: These are houses you are alluding to?

Mr. NOWLAN: No, items of national defence. The particular unit is a generator unit, 28 generators complete with all the appurtenances thereto. They were included in a package lot of 28 units. When the sale was made this one unit was deducted, and they said, "No, you cannot take that one. Someone made a mistake."

The CHAIRMAN: And you want to know what the bookkeeping entry was in that connection?

Mr. NOWLAN: Yes, what became of these generators and how could they be transferred to the Crown Assets? Subsequently the Department of National Defence said, "They are not Crown assets; they are ours."

The CHAIRMAN: If Mr. Sellar has the information there is no objection to his giving it.

The WITNESS: The situation is this; immediately after the war it was the practice of the Department of National Defence sometimes to turn over all storehouses with all contents, and the corporation took possession and control and had to make the inventory and everything else. That was not found to be efficient or effective. Subsequently it was arranged with the Department of National Defence that when the department declared something surplus

custody would continue in the department; but the responsibility for negotiating for the disposal would be taken over by the corporation. Therefore, in the instance you have referred to, namely that of these generators, the Department of National Defence would be the physical custodian of the material. You might say that Crown Assets were merely acting as a sales agent. The act also provides, if my memory serves me aright, that at any time if the department requires something that it has declared surplus the Minister of Defence Production can say: "all right you can keep it."

The CHAIRMAN: But as a matter of fact it does remain in the physical custody of the department?

The WITNESS: And in its store records. But you have to bear in mind that national defence stores are not reflected in the account.

Mr. NOWLAN: The assets are not transferred from a particular department to the Crown Assets Disposal Corporation?

The WITNESS: No. You can say that they are technically; but physically, no.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Before any defence equipment or supplies can be disposed of is it necessary for them to be declared surplus by National Defence?

The WITNESS: If they come within the meaning of surplus crown assets, yes. They must be declared over the signature of the minister.

By Mr. Goode:

Q. I would like to ask the witness a question about the auditing of Central Mortgage and Housing Corporation accounts. I am rather interested, and I would like to know on whose authority is the auditing of Central Mortgage and Housing Corporation accounts done by outside accountants?—A. Under the authority of the parliament of Canada, sir. It is in the act.

Q. Have you ever been approached to supervise the auditing of Central Mortgage and Housing accounts at any time?—A. No sir.

The CHAIRMAN: Are there any other questions on paragraph 5?

By Mr. Fulton:

Q. Are assets such as wartime houses and defence department stores reflected in the balance sheet of Canada?

A. No sir. Incidentally, some assets of the Central Mortgage and Housing Corporation are so reflected by reason of loans they have. The loans are set up as assets. But as to the physical part, the answer is, no. It is not the practice to put up stores as assets in the balance sheet of Canada.

Q. Has it ever been?—A. In modification of that answer, let us take for example the Department of Transport which has a revolving fund for stores—from memory it is in the region of \$4 million. That amount is set up as an asset.

Q. I am completely unfamiliar with these things. Could you tell us whether, in striking a balance sheet it would be normal not to reflect the physical assets?—A. No. But it is not normal for a government to have a balance sheet. We are unique in this country. We provide a statement of assets and liabilities and the Minister of Finance is required to make a selection. What he does is this: he limits his listing of assets and liabilities to what we might call the cash items. He does not list any stuff that could be converted into money.

Q. The only way these things ever come into the account is when they are disposed of, and the cash for the sale appears?—A. Take this building here, for example. It is not in the financial statement. It is charged to expenditure.

Mr. APPLEWHAITE: May I ask a question in that connection, Mr. Chairman? When government money is spent for the buying of an asset such as a truck or an airplane is this shown as an expenditure at the time?

The WITNESS: And is written off.

The CHAIRMAN: Are there any other questions on paragraph 5? If not we will proceed to paragraph 6. There are no questions. Paragraph 7.

By Mr. Noseworthy:

Q. In paragraph 7 there is a reference to the Agricultural Prices Support Act, and a reduction from \$37 million to \$3 million. Where can we find the details of that reduction?—A. There is a reference to it in paragraph 51 of my report and you will find a statement regarding the Agricultural Prices Support Act in A-75 of the public accounts.

The CHAIRMAN: Are there any more questions with regard to paragraph 7? If not we will proceed to paragraph 8.

By Mr. Harkness:

Q. Mr. Chairman, in paragraph 8 it says that a reserve was set up about 15 years ago to provide against losses on ultimate realization of assets listed in the statement of assets and liabilities. No addition was made to the \$496,384,000 reserve in 1954-1955, while in the previous year \$50 million had been added. What are the assets that this reserve is set up against? What are the assets which are referred to in this case?—A. Everything listed on the assets side of the statement of assets and liabilities is set out on page 86. That is all the loans, investments and so on.

The CHAIRMAN: You are referring to page 86 of the public accounts?

The WITNESS: Yes, there is a general reserve against everything.

By Mr. Harkness:

Q. I know you have dealt with this particular item on page 35. It says there that the balance of the reserve is equivalent to 6·9 per cent of the aggregate recorded assets. Do you consider that this is sufficient?—A. Pardon me sir, did you say page 35?

Q. Yes, at the bottom of page 35. It mentions some \$496 million.—A. Yes sir, but that is the report of the Deputy Minister of Finance, not mine. You would have to call him. The Deputy Minister of Finance signs that report.

Q. In any event this \$496 million constitutes apparently 6·9 per cent of the aggregate recorded assets. My question is: do you consider that that is a sufficient reserve?

The CHAIRMAN: I think that question should be asked of the Deputy Minister of Finance who signs the report.

The WITNESS: I can give an answer to that.

The CHAIRMAN: If Mr. Sellar is prepared to answer the question I have no objection.

The WITNESS: I do not want to refer members back to the auditor's books of previous years specifically, but on more than one occasion I brought to the notice of the House of Commons in my report that the Department of Finance never provided me with a schedule as to how these sums of \$25 million or \$50 million were calculated—what assets were recorded as doubtful or not, and I told them that I could never accept it without question because it seems to me extraordinary that our assets should diminish at the rate of \$25 million or \$50 million every year. It was not logical. But the Department of Finance never gave this information to me. You cannot complain, or criticize the government for this because they are, actually, showing their

net debt as something bigger than they would otherwise. They would, rather, be working against themselves if they want to show a low net figure. However, I am hopeful. The Department of Finance has now decided that at the moment they need not put up anything. That may mean they are analyzing their assets more carefully and that in future they will give me particulars with regard to the way in which they calculate these assets. On that basis I can form an opinion and if I think there is something which you gentlemen should know I could put it in my report.

By Mr. Harkness:

Q. The situation at the moment seems to be this: we really have no basis on which to reach a conclusion as to whether this reserve is ample or whether it is not?—A. No sir, unless you ask the Deputy Minister of Finance to explain it to you. I cannot, because I have never got any explanation.

Q. I remember something which took place in past years with regard to this matter and that is why I asked the question. I take it from your answer Mr. Sellar that you would consider this to be a matter which we should take up now with the Deputy Minister of Finance?—A. Yes sir.

The CHAIRMAN: If I understand you correctly Mr. Sellar the gist of your remarks is that this reserve has not been justified. In other words as far as you can see this reserve is not required?

The WITNESS: No sir. I did not say that. I think you need a reserve because there are some of these assets on which you will never get the money back altogether. I am not trying to criticize the future of any of the crown corporations, but they will never repay all of the money that we have spent and which is up there as assets. There are some loans recorded to foreign governments in respect of which we may not get our money back. Then again, we may have to negotiate a settlement or a compromise with some of the provinces at some time, and all for good reason. Therefore I think it quite proper that the Minister of Finance has set up a reserve. The only thing I do feel is that we should have a little more information about this subject.

We have to be fair to the Minister of Finance. He says: "I cannot disclose in print particulars of the assets which I regard as perhaps doubtful accounts." He said that he cannot particularize and he has a point there. But I do think, inside this room or by letter, he should tell me how he calculates it so that when I am certifying the financial statement I do not need to automatically qualify as I am now.

Q. In other words if there were more information you could give a truer picture of what the contracts actually are?—A. Yes, whether it is fair or not.

By Mr. Argue:

Q. Can you give us the reason why there was no money put in this account in 1954-55 and \$50 million was added to it the year before?—A. This is a decision of the Minister of Finance and you would have to ask him. Offhand my opinion would be that the minister decided he had an adequate reserve for the time being and was not going to add to it this year.

Q. Is it possible, under this procedure, for the Minister of Finance to hide or get rid of part of a rather embarrassingly large surplus, and in a year when he might be incurring a deficit the thing he is likely to do is put nothing in the account and when he has overtaxed the public in a given year he is likely to put a substantial amount into the account?

The CHAIRMAN: That is a hypothetical question which the Auditor General should not have to answer.

By Mr. Regier:

Q. Could I ask Mr. Sellar under what legislation or authority has the minister the power to allocate anything to such a reserve, and if so is that authority also one at the discretion of the minister?—A. Mr. Chairman, section 63 of the Financial Administration Act provides that: "Subject to regulations of the Treasury Board, the minister may establish such reserves with respect to the assets and liabilities, as in his opinion are required to give a true and fair view of the financial position of Canada."

Mr. REGIER: Thank you.

By Mr. Leduc (Jacques Cartier-Lasalle):

Q. Is it true that the government operates on revenues and expenditures?—A. Yes, a cash basis only.

Q. And that the reserve will only be to set up the assets and liabilities?—A. Yes, sir.

By Mr. Fulton:

Q. Do I understand from that the implication is this is not a transaction of cash at all?—A. No, just bookkeeping.

Mr. HARKNESS: Mr. Chairman, I would suggest we should keep it in mind to have the Deputy Minister of Finance present at a subsequent meeting in order to go into this particular matter, which I think is one of some importance.

The CHAIRMAN: I am making a note of it. If it is the desire of the committee we shall do so.

By Mr. Leduc (Jacques Cartier-Lasalle):

Q. I think this item of reserve is only a matter of a decision in respect to the assets and liabilities, whether you put \$50 million as a reserve or \$45 million; it only affects your statement of liabilities?—A. That is quite right. It is not a write-off of any of your assets. It is just a reserve against what they may ultimately produce.

The CHAIRMAN: Is it not the same as a reserve set up by any corporation for bad and doubtful debts? It is a matter of estimation?

The WITNESS: Yes.

The CHAIRMAN: Some people may think it is too much and others may think it is not enough.

By Mr. Fulton:

Q. When it is decided that it is uncollectable and you would write it off then does your reserve depreciate by that amount?—A. First they would have to come to parliament and get permission to write off that bad debt and then it would be charged as a rule against this reserve.

Q. And the reserve would be decreased by a certain amount?—A. Yes.

By Mr. Noseworthy:

Q. Is there a table here, or available, showing over what years that \$496 million reserve was paid up and the amounts placed there each year?—A. There is no table, sir. But it started I think in 1941 at \$25 million, continued at that rate for several years and then was increased to \$50 million and then this continued for the year I am now reporting on.

Hon. Mr. Rowe:

Q. Would there be anything to prevent a Minister of Finance adding an occasional \$200,000 at any time?—A. I could not imagine him doing it, sir, because he would show an awful deficit.

Mr. HARKNESS: Unless he had a big surplus.

Hon. Mr. ROWE: If the Minister of Finance's judgment was not too good he could probably do that.

The CHAIRMAN: I think it is a matter of estimation what the reserve should be and the Minister of Finance is entitled to put up what he wants. If the house thinks it is not right, they can bring it to the attention of the public.

Hon. Mr. ROWE: We have no details of it. There is such a vast difference of opinion even in the House of Commons. It is the practice I am thinking of rather than being critical.

The CHAIRMAN: As Mr. Sellar has said, he thinks it would be a good thing if the committee were given details of how these reserves are estimated and when we have the Deputy Minister of Finance here I think you can ask him this question at that time. Mr. Sellar has not got the details.

Hon. Mr. ROWE: It is pretty hard to pass any opinion on the soundness of judgment as to whether we need over \$500 million which you have now, in comparison to 1950 of \$25 million as we had at the start.

The CHAIRMAN: I do not think there is a danger of his setting up \$500 million in any one year.

Hon. Mr. ROWE: The total amount.

Mr. REGIER: I cannot reconcile in my mind the answer Mr. Sellar gave Mr. Rowe a few moments ago. Mr. Rowe suggested a situation where \$200 million would be put into the fund and Mr. Sellar's reply was he would have an awfully big deficit. If I got it right it cannot be reconciled with the answer given us before, that actually it is not an outlay of money at all and is merely a bookkeeping entry. That would not explain the answer Mr. Rowe got. If that is all it is, it could not possibly be responsible for a deficit.

The CHAIRMAN: It would not be shown as a deficit because it would be inscribed as an expenditure. It is in the report here: Added to reserve and charged to expenditure.

Mr. REGIER: It was explained that in no case is it an expenditure.

The WITNESS: I may have been a little loose in my language. I used the word "deficit"; I should have said "net debt", which would be more accurate. It would have affected your net debt figure and that is what you quote when you speak of the financial position of the country, the net debt figure.

The CHAIRMAN: Are there any other questions on paragraph 8? Paragraph 9?

By Mr. Fulton:

Q. Mr. Sellar, would you, in respect of your comment in the first two lines, tell us how it was handled up to 1954-55?—A. You are referring now to the old age security fund?

Q. Yes.—A. That account has run a deficit every year and it is treated as a special account to which a portion of the income tax and a portion of the sales tax revenues are credited. The act provides that the Minister of Finance may make advances to the credit of this account when necessary. This is the amount he has had to advance. The act also provides that the minister from time to time shall keep the house informed as to whether he thinks the vote will produce enough to carry it or if appropriate action should be taken to

raise the income of the fund. For several years the practice has been, by an item in the estimates, to charge off the deficit to expenditure and keep the fund in balance. That is still being done. That is how the account stands; instead of raising the levies you charge it off to expenditure by means of the item of estimates.

Q. That was not done in 1953 and 1954, you say.—A. No, but it has been done since. It was done in 1955.

Q. Was 1953 and 1954 an exception?—A. No, there is no exception. The treatment is the same, but you have got to bear in mind they do not know their exact figure at March 31, and therefore action is taken in the subsequent financial year. It was carried forward. Pardon me, Mr. Chairman, I see what is worrying Mr. Fulton. In one year it was done within the year and the next year it was not done, and therefore you have a hiatus in that one year.

The CHAIRMAN: Any other questions on paragraph 9?

By Mr. Noseworthy:

Q. Is it, Mr. Chairman, to be the practice of the government each year to charge off any deficit of the old age security fund as was done last year?—A. That has been the practice, sir, to bring in a vote to parliament, generally in the supplementaries, or some other time to write off that deficit to date.

The CHAIRMAN: Any questions on paragraph 10? I might ask you, Mr. Sellar on paragraph 10, why is the amount of the subsidy payable to Ontario so much higher than any of the other provinces?

The WITNESS: I can get you the figures, sir. It is a much larger province, of course, but again the Deputy Minister of Finance is the man that has the statistics, and you are thinking of having him, but it is really because the province of Ontario is a larger province and has a big source of income.

Mr. TUCKER: Quebec signed no tax rental agreement and Ontario did.

The CHAIRMAN: Any other question on paragraph 10? Any questions on paragraph 11?

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Just one simple one, Mr. Chairman. At least I hope it is simple. The last sentence says, "Post Office costs do not include outlays for accommodation, these being items of expense charged to public works appropriations." That is general throughout the government, that public works takes up the cost for provision of buildings and that sort of thing for all departments. Now, my question is this, Mr. Sellar, is there any subsidiary schedule anywhere which contains, either perhaps in your report or in the details, an estimate of the cost of these services, department by department, provided by Public Works?—A. No, sir. In your earlier statement you are not fully correct, sir. The department of insurance, by law, has its expenses reimbursed by insurance companies and trust companies, and in billing the companies for their share of the cost, the rentals that the Public Works pay are included. Likewise in the case of unemployment insurance, while the Public Works Department may rent office accommodation for the unemployment insurance and pay the rentals, U.I.C. reimburses rentals for them.

Q. To Public Works?—A. To Public Works, yes, and in certain cases National Defence pays the cost rather than the Public Works.

Q. But apart from one or two minor exceptions.—A. For the departments generally, we look to Public Works, and you will not find any place a tabulation of what you may call an interdepartmental service charge against a department.

Q. The reason I ask that is that the Post Office Department's statement contains their own estimate of some \$13 million for the provision of these services by the Public Works Department. I was wondering if there was any opportunity to verify that independently of the statement in the Post Office Department report?—A. I suppose there could be, but I don't know whether anybody has ever done so.

The CHAIRMAN: They must have it in the Public Works Department books, surely?

The WITNESS: Well, sir, your trouble is this: we in this country like to have rather ornate public buildings. We quite often put post offices on the ground floor. However, you could give exactly the same service, postal services, in much cheaper floor space than we do in public buildings. We own that building, therefore what is the comparable rental rate that we should show in estimating the value of the post office? Should we say it is \$5 a foot because this is an ornate building, or could we say we could get this rental for \$2 a foot, what figures should we use? If you have a rental you have the figure, but when the government owns the building you are estimating what the rental should be. I know that the Post Office has claimed they could never afford to pay a rental based on the cost of some of the public buildings we put up. The postal service would not justify it. That is why I say it is a matter of estimate when you come to that.

The CHAIRMAN: Any other questions on paragraph 11? Paragraph 12?

By Mr. Harkness:

Q. Mr. Sellar, on paragraph 12, does this deficit of \$151.8 million indicate the entire picture as far as the government financial situation is concerned? What I had in mind is this: there are a lot of crown companies, for one thing; and this is one example, which make a considerable profit. They do not turn those profits over to the consolidated revenue fund, and therefore there is an asset there which belongs to the people of Canada, and which I would think really should be reflected in the over-all financial picture, but it is not shown, and there may be a considerable number of other items of the same kind; some of which may be assets and some of which may be liabilities. That is why I ask you the question as to what extent this shows the final financial picture for the year's operation.—A. Just transactions through the consolidated revenue fund, sir. It does not include profit of corporations that remain with the corporation.

Q. Well, is there anything else that it does not include?—A. I would have to think that over, sir, before I tried to give you an answer because I do not want to mislead you. I do not know the answer at the moment. I would like to think that over.

Q. You see, this is the thing I have wondered about on several occasions, how can you get at the real, or the actual picture, because there is this one thing that I know of that is not included, and there must be others.—A. Well, we have, of course, taken the view, sir—that is, when I say “we”, I mean the audit office, that we should have the assets reflected in the public accounts of Canada comparable to the liabilities reflected in the accounts of the corporations to the government of Canada, and that we should adjust those figures annually, so they do reflect what you have in mind, but that is just an office opinion. We have never discussed it with others and we do not know what their views are, but that would be one means we turn to to accomplish what you have in mind.

Q. Well, at our next meeting can you let us have any other items such as the one I have mentioned which would make a difference in this figure of \$151 million?—A. I would have to think that over, sir.

Q. Well, that is what I say; can you perhaps give us that information at the next meeting?—A. I think for your purposes, sir, it will come under paragraph 96 in my report.

Q. Well, that is the one that deals with crown companies?—A. Yes, and that is where it would almost all be.

Q. But my question was, what other items besides crown companies, which was the one I knew of, might not be reflected?—A. As I say, I would like to think, but I do not know of any offhand.

Q. Well, you might perhaps tell us next meeting?—A. Yes.

The CHAIRMAN: Any other questions on 12? 13?

Mr. HOLOWACH: One question on 13, Mr. Chairman. Are the receipts and payments, Mr. Sellar, recorded directly in various special accounts; do they go through the usual audit examination by your department?

The WITNESS: Yes, sir.

Mr. FULTON: Would the revolving funds of the various departments be among those referred to on page 13, such as the Department of Transport revolving fund, would that be one you refer to there?

The WITNESS: The costs and charges in that revolving fund are to appropriations, and therefore we audit the account through these appropriations.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Mr. Chairman, under section 13 Mr. Sellar says, “—some acts direct receipts and payments to be recorded directly in various special accounts.” And he then lists 1, 2, 3, 4, 5; are there any additional to the five which you list?

The CHAIRMAN: You mean the five in the five following paragraphs?

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Yes, he says “The financial transactions of some are summarized in the following paragraphs.”—A. I don’t think there are any others, sir. What is making me hesitate for a moment is that, I am not sure about the House of Commons pension account. I am not exactly sure what the status of it is, but I don’t think there are any. I think it is the whole list.

Q. If I may, just for a moment again, to clarify in my own mind; I am sorry to be so slow about it, but the bull that you referred to before; the money would go into the public accounts and it would be paid out of the public accounts and as we said before it would not be recorded specifically. Is there any way whereby one could find a schedule or listing of any such transaction in which the government was involved?—A. Yes. You will find at the end of the financial statement of every department a listing of the open accounts. That is where you will find anything that is left in there at the year’s end.

If you are interested you will not find it anywhere except in the department’s records. You will not find it in the reports here.

Q. That was, essentially, the point I wanted to make. If the federal government was acting, let us say, as purchasing agent for a private individual, buying a bull in South Amercia, or for a foreign government in buying arms and munitions in Canada, and if that money was paid to Canada and paid out in the same year, it would not be reflected in the public accounts at all?—A. No sir.

Q. And there is no way whereby we could ascertain that information from an inspection of the public accounts or of any public records of the government?—A. You are laying emphasis on “public records”; it is in the accounting records of course.

Q. Yes, but there is no way whereby an ordinary member of parliament could turn it up at all?—A. No. It is not laid before you.

By Mr. Maltais:

Q. If there should be something wrong in the course of the year, you would pick it up and mention it in your report, would you not?—A. I would have to, sir.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. There might be nothing wrong whatsoever in the transaction. It might be a perfectly legal transaction; and therefore you would not find it necessary, if it was a perfectly legal and proper transaction, to bring it to our attention. A. No. I would make no reference to it, because I assume you are interested in what is falling on the taxpayers of this country, either in the way of their paying out money or bearing the cost.

By Mr. Maltais:

Q. If there was any loss on the part of the Canadian government, would it be recorded?—A. Yes. If there was such a loss it would have to be paid out of something; therefore it would have to come out of some appropriation and would be reflected in that appropriation.

Q. The taxpayers' money is not endangered in that type of business.

Hon. Mr. ROWE: If there was no loss, it would be none of parliament's business.

The WITNESS: Yes sir. The words "parliament's business" are your selection. I would say that it is not parliament's responsibility.

By the Chairman:

Q. Is it not a fact that it is not parliament's responsibility because the money involved is not money collected from the people of Canada? The money is received from outside sources for specific purposes and it is used for those purposes. Is that a fact?—A. No, I would draw a distinction there.

Q. I was referring to Mr. Hamilton's (Notre-Dame-de-Grâce) example, of the government buying arms or livestock, or anything, when in such cases the government gets the money from the very person for whom the government makes the purchase, and from whom they are receiving that money.—A. The reason I interrupted, Mr. Chairman, is that the British North America Act says that moneys in the consolidated revenue fund shall be appropriated by parliament for the public services of Canada.

If you buy something for an individual or for his benefit, that is not a public service activity. It is a personal transaction. That is the distinction I would draw.

Hon. Mr. ROWE: You distinguish then between the bull and the 25 pound shells!

By Mr. Applewhaite:

Q. Would this be a fair statement from the point of view of the Auditor General; that Parliament through the public accounts deals with moneys which belong to the people of Canada, and with them only? Is that a fair statement?—A. Yes. As I said before, when the post office department sells a man a \$100 money order and later on redeems it, that transaction does not appear in the public accounts in any way.

The CHAIRMAN: It is now quarter to one, and if it is not the wish of the committee to start on government annuities and the other particular paragraphs at this time, I think we might adjourn.

Mr. NOWLAN: When do we meet again?

The CHAIRMAN: On Tuesday at 11 a.m.

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Third Session—Twenty-second Parliament

1956

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STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: CHARLES A. CANNON, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, MARCH 20, 1956

WITNESS:

Mr. Watson Sellar, Auditor General of Canada.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

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<i>de-Grâce</i>)	Ménard	Zaplitny

Antonio Plouffe,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, March 20, 1956.

The Standing Committee on Public Accounts met this day at 11 o'clock. The Chairman, Mr. Charles A. Cannon, presided.

Members present: Messrs. Applewhaite, Argue, Ashbourne, Balcer, Balcom, Beaudry, Boisvert, Breton, Cameron (*High Park*), Harkness, Henderson, Holowach, Houck, Kirk (*Antigonish-Guysborough*), Maltais, McGregor, McLeod, McWilliam, Ménard, Mitchell (*London*), Mitchell (*Sudbury*), Monteith, Noseworthy, Pommer, Poulin, Regier, Schneider, Thomas, and Tucker. (30)

Also present: Mr. William Benidickson, Parliamentary Assistant to the Minister of Finance.

In attendance: Mr. Watson Sellar, Auditor General of Canada.

The Committee resumed consideration of the Public Accounts for the year ending March 31, 1955, particularly the Auditor General's Report thereon.

Mr. Watson Sellar was called. He gave answers to questions asked at the previous meeting.

His examination was continued.

At 12.45 o'clock, Mr. Sellar's examination still continuing, the Committee adjourned until Thursday, March 22 at 11 o'clock.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

EVIDENCE

March 20, 1956.

11 A.M.

The CHAIRMAN: Order. We have a quorum, gentlemen, so we shall start. We shall continue this morning with Mr. Sellar's evidence.

At the end of the last meeting, Mr. Sellar, there were two questions. One by Mr. Hamilton, I think, and one by Mr. Harkness which you said you wanted to think over, and to which you said you would get the answers for this morning.

Mr. Watson Sellar, Auditor General of Canada, called.

The WITNESS: Yes, sir.

The first question asked me was whether—in paragraphs 13, 14, 15, 16 and so on, where I list certain transactions which do not pass through the revenue expenditure statements—there were any other significant ones that should be added. I asked for time to think it over, because there is a very wide range of transactions that can be involved. Collectively you will find them either in item 18 in the statement of liabilities, or in schedules “K” and “L” to the statement of liabilities. “K” and “L” are set out on pages 100 to 102. These are very varied. A great many of them are of no concern. Some of them are small amounts. There is the Indian trust fund, there is the Post Office savings bank, and so on. I do not think that those are what the questioner had in mind, sir. I think what he wanted was something that related to the ordinary administration of government which was not reflected either in the income or outgo. If I am right in that assumption, I would say there is one account that I would have added in the light of the discussion on Thursday last.

The treatment given to it is perfectly proper but I would have added, by way of information, that the Post Office revenues do not include—that is the Post Office revenues as reported do not include about \$20 million of expenditures and revenues that are made directly out of post office receipts. The reason is, the Post Office Act provides that the cost of revenue post offices, and of certain transmittal charges, when goods—mail passes through foreign countries shall be charged directly to revenue. Therefore, there is about \$20 million, of which \$17½ million was paid to the revenue Post Office, that is recorded neither as revenue, nor as expenditure. The particulars are given, of course, in the public accounts on page S-13. Therefore, the information is before the committee. But, I think, if I were re-writing this particular part now, I would have included post offices.

The second question, sir, if I recall correctly, was asked by Mr. Harkness. His first point that he raised was whether I was satisfied that the statement of assets included all liabilities of crown corporations and whether they were set up for the proper amount. I replied that I did not think so, and that I had referred to that later in my report. I drew his attention to paragraph 96. I am sorry, but I was careless, I should have also referred to paragraph 62 which deals with that subject specifically. I apologize to you, sir, for making that slip. I should have said 62 and 96 as correlated paragraphs.

Then Mr. Harkness asked me if the assets statement included all items that would reasonably and properly be rated as assets. Now, we have to

bear in mind that we are dealing with about \$7 billion of assets. Therefore, I took it for granted that Mr. Harkness' question did not refer to some small incidental item, but he was really thinking in terms of large sums of money.

There are two transactions, sir, where the accounting treatment is correct, but there is an alternative treatment that could be given. Those are the only two items that occur to me.

The first relates to the unemployment insurance fund. I will use round figures. The account approximates \$850 million. In the liability side of the statement of assets and liabilities, the amount shown in connection with that fund is approximately \$13 million; that is all. But, in the schedule attached to the balance sheet it shows that the total of the fund is \$853 million, but that \$839 million are invested in securities. Therefore, it is only the net that is not invested that is shown.

Now, the alternative treatment would be to show the total liability as \$853 million on the liability side, and on the assets side put up a separate item showing cash \$13 million, and securities \$840 million, and then you would have your balance.

The reason for this treatment, gentlemen, if it is of interest to you, is that employees and employers regard this fund as their money, not government money. They want to keep it separate and distinct from the government accounts. This is psychological, but I think the same aim would be served if we showed it clearly.

The second account, sir, which also involves a large sum of money is the advances to the treasurer of the United States for purchases that we are going to make in that country of munitions of war.

I deal with that in paragraph 35 of the report now before you.

Under the law of the United States a foreign government desiring to procure munitions from the government of the United States must pay cash in advance. As a result at the end of the financial year we had \$343 million on deposit with the treasurer of the United States. Against that we had deliveries of approximately \$181 million, so that there was a net balance in our favour of \$162 million as of that date.

Now, the total amount we have advanced to the treasurer of the United States has been recorded as expenditures in the year when the advances were made, not all in the year which you now have before you. Some relate to prior years, but they are all recorded as expenditures. Therefore, this item does not appear in the balance sheet.

Now, my feeling is that in view of the fact that there is a very large sum of money involved, that the alternative treatment might be, to set up the equivalent of a procurement revolving fund, show that as an asset and charge all deliveries as made, so that you would have before you automatically in looking at the financial statement what was the amount of money held by other governments.

Those two, sir, are the only items that I think might be worthy of consideration, and as I said before, the accounting treatment is strictly right. I am only offering an alternative to what is now being done.

By Mr. Harkness:

Q. Well, the general picture there, Mr. Sellar, would be, in order to get a sort of true picture of the assets, you would have to add to it this \$162 million and approximately \$700 million from the unemployment insurance fund plus an amount which you do not know from the crown assets, or, I mean from the crown companies?—A. Yes, sir, and you have to increase your liability item for the unemployment insurance fund proportionately.

Q. Yes. Now, on the other side of the ledger, as far as liabilities are concerned, are there any items there?—A. No, sir, no.

Q. Just the item on the assets side?—A. That, sir, is something I do not need to stop and think about, because that is my job, to see that they are all in before I certify the accounts. I am less worried over assets than I am over liabilities.

The CHAIRMAN: Well, now that we have finished dealing with the questions that were held over from the last meeting, we might proceed with paragraph 14 of Mr. Sellars report, "Government annuities".

By Mr. Pommer:

Q. Mr. Chairman, on this item I notice in the last year is a \$372,000 contribution by the government to maintain the statutory reserve. Does that stay pretty well constant, that amount each year, \$372 million, or does it vary to any great extent?—A. \$372,000.

Q. To maintain the statutory reserve?—A. Mr. Chairman, this is a deficiency, because it really stems mainly from contracts entered into prior to 1936 when the government guaranteed 5 per cent interest compounded half annually.

By Mr. Harkness:

Q. Five or four?—A. Five, up to 1935.

Q. I thought it was four.—A. And then it dropped to four, but it is those old contracts. Currently the contracts are regarded as more or less actuarially sound, so there is no big change in those, and these amounts should diminish as the people die off, but you can regard them currently as more or less stable.

By Mr. Pommer:

Q. When you state, Mr. Sellar, this is actuarially sound, does that mean that the annuitant pays pretty well the cost?—A. Well, the interest rate is now $3\frac{1}{2}$ per cent, and that is the statutory reserve.

Q. What is meant by the "statutory reserve" there?—A. That is the amount necessary, estimated by the actuaries as required to discharge the liabilities under contracts.

Q. It varies then, does it?—A. I beg your pardon?

Q. It varies?—A. Yes.

Q. I notice the amount at the present time is \$864,543,000?—A. Every time a new contract is made, naturally the amount you require for the reserve goes up.

By Mr. Monteith:

Q. Mr. Sellar, the contracts that were entered into prior to 1936, would they carry a 20-year guarantee as a maximum?—A. I am sorry, sir, I would have to inquire as to that.

Q. In other words, these—this required amount each year will probably be diminishing rapidly from now on, would it not?—A. Again, I would have to inquire to give you a true answer, because I do not know. I will inquire and find out.

By Mr. Harkness:

Q. In what form is this credit of \$864 million held?—A. Bookkeeping.

Q. It is straight bookkeeping?—A. Yes, sir. There are no securities. It is credited to the government of Canada.

Q. Well, in other words then, there is no interest received on it, and the money is used as part of the consolidated revenue fund, and the interest which is allowed on money paid in by contribution is just charged up against that consolidated revenue fund?—A. Yes, the government pays interest on the use of the money.

Mr. APPLEWHAITE: They paid that \$31 million last year, did they not? This \$31 million referred to in the second line was paid by the government?

The WITNESS: Yes.

The CHAIRMAN: Are there any other questions on paragraph 14? If not, we will go to paragraph 15, "Old age security fund". No questions on paragraph 15. We will take paragraph 16, "Unemployment insurance fund". If there are no questions on paragraph 16 we will go to paragraph 17, "Superannuation and pension fund accounts". There being no questions on paragraph 17 we will go to paragraph 18, "Army benevolent fund".

Mr. BALCOM: Mr. Chairman, I would like to ask Mr. Sellar if administrative expense of \$84,000 seems high for the amount of money, that is \$465,000 disbursed.

The CHAIRMAN: Yes, Mr. Sellar.

The WITNESS: Mr. Chairman, you have to bear in mind that the army benevolent fund is a peculiar organization. The act stipulates that it is not part of the public service, nor are its employees to be members of the public service. It is an entirely independent body.

This problem in connection with administration charges stems from the fact that it has to cover the ten provinces of Canada. They may have a returned soldier some place away off, and not another one near. It has to go and make its investigation in that area. That is the reason.

Actually, sir, I think that the gentleman who compose the board are very careful in their expenditures. It is the volume of business and the way it is spread out that is responsible for the cost.

I might add, sir, that the reason I make reference to the army benevolent fund, which is a small show as far as money goes, is because no place else will you find it in the public accounts. I am named the auditor of it, but it is not in the public accounts, and that is why I put it in.

The CHAIRMAN: No more questions on paragraph 18? Then, we will proceed to paragraph 19. As there are no questions on paragraph 19 we will proceed to paragraph 20.

Mr. MONTEITH: Pardon me, Mr. Chairman.

The CHAIRMAN: On 19 or 20?

By Mr. Monteith:

Q. On 19. I wonder if I might ask Mr. Sellar if in his opinion the requirements as set out under the Financial Administration Act are comprehensive enough, are they sufficient?—A. I think they are, sir. I regard the final words the all important thing, "to any other case that the Auditor General considers should be brought to the notice of the House of Commons." That is a basket item and in our audit we regard that as covering anything that is not included above.

The CHAIRMAN: Are there any questions on paragraph 20?

By Mr. Harkness:

Q. Yes, I wonder by what authority or by what means does the R.C.M.P. hypothecate its funds that you mention for this rental scheme?—A. Well, they are not—you mean to say their authority for making a long-term contract?

Q. Yes.—A. Yes. Well, that is—

Q. Which binds them to certain payments?—A. Yes. That falls under the question of the power of the crown to contract for an indefinite period. So far as I know the law has always held that the crown can make any contract it likes, but that the contract, so far as the money is concerned, is dependent upon parliament appropriating the necessary funds. Whether that is a correct statement of the law, I will leave to the lawyers to answer.

Q. Well, then the situation here is that if parliament did not appropriate sufficient funds, this contract would be null and void?—A. I would not say null and void, sir. I would say it would be unenforceable.

Q. Well, do I take it from this paragraph that you consider this was not a good contract?—A. No, sir, I express no opinion as to whether it is a good or bad contract, because I know nothing about rentals. The thing that worried me is really the relationship of the House of Commons with the executive government.

Q. Yes.—A. That is to say, when the House of Commons—parliament, pardon me, parliament has enacted that if Central Mortgage and Housing Corporation guaranteed any builder rentals, that they shall charge a premium, and that the term of the agreement shall not be more than 30 years. Now, that is addressed to Central Mortgage and Housing Corporation. The Central Mortgage and Housing Corporation is a little unusual among corporations. Might I read you one section of the Central Mortgage and Housing Corporation Act; it is section 3: "There is hereby established a corporation called the 'Central Mortgage and Housing Corporation' consisting of the minister and those persons who from time to time comprise the board of directors. Consisting of the minister—", are the words to which I draw your attention. You will find that in no other act. While the minister is not on the board of directors it is the using of this phrase, "consisting of the minister" that puzzled me, whether that should be regarded as a direction, not only to the Central Mortgage and Housing Corporation, but also to the crown generally. I do not know the answer, but I thought I should bring it to your notice.

Q. Well, as far as the estimates of the R.C.M.P. are concerned, the section which provides a vote for quarters and what not is adequate to cover this sort of business?—A. Oh, it might well be, sir, that there will never be a cent charged to the appropriation. The R.C.M.P. constables and officers who occupy this may pay enough rent to fully take care of every obligation arising under this contract. This is only in the event of the occupancy falling below 95 per cent when there would be a charge on the public funds.

Q. When there is a liability. However, my question still remains; is there provision in the estimates to cover that kind of thing?—A. Well, you have got a question of law. As far as I am concerned, I regard that National Defence has the authority to provide housing for its personnel. I have always regarded that the R.C.M.P. had power to provide for its personnel. As a matter of fact, we have constructed various buildings, both in Ottawa and also in Regina, in the form of barracks for the accommodation of personnel. But, when you go beyond this and deal with general housing, it seems to me you have a question then of relationship between parliament and the department. I do not know the answer, but I thought I should draw it to your notice.

Q. Well, from that point of view, the question does not arise, I do not think, as far as National Defence is concerned, because you have a vote which takes care practically of all the money needed for National Defence in the one vote, and it is quite within their power then to use that money for buying arms or in housing, or anything else which they feel it is desirable as far as I can see, but when you come to the other departments you do not meet that same situation, the money that is voted for housing must be used for housing. Now, I do not, I cannot see particularly where there was any money voted

to cover this purpose as far as the R.C.M.P. is concerned?—A. I do not wish to argue, sir, with you as to the point; I am just wanting to draw a few facts to your attention. One is this: that the R.C.M.P. Act provides for paying an allowance for billeting of the force and so on, and the appropriation to the R.C.M.P. I always regard as given subject to the provision of the R.C.M.P. Act. I think you will find in that act adequate authority for them going to the expense of providing billeting for their personnel.

Q. Well then, why do you think the matter of the jurisdiction of parliament over these expenditures arises?—A. Because in the case of Central Mortgage and Housing Corporation, if they entered into such an agreement it can be for only 30 years. Legislation limits it to 30 years and it can only give that guarantee subject to the owner agreeing to pay a certain premium per annum to the corporation. In this case there is no premium payment, there is no cut of the rental, and the period is longer than 30 years.

Q. In other words you think it is not consistent with the Central Mortgage and Housing Corporation legislation?—A. It is not in exact agreement, but whether or not that is permissive or otherwise, I do not know. I would assume it is permissive because it was made by the R.C.M.P. which is under the Minister of Justice, and therefore I assume he explored it from the legal viewpoint.

The CHAIRMAN: Are there any other questions on paragraph 20? If not we shall go on to paragraph 21.

By Mr. Mitchell (London):

Q. Is the tendency indicated in paragraph 21 a general one or is it one of the very few isolated examples?—A. It is isolated, sir, and generally occurs among small staffs. There is a reason, to some degree, for this situation continuing to exist. In the weights and measures laboratory they are hoping to move into larger quarters at which point they can bring their tariff into harmony with costs. Public Works have so far not been able to provide for expansion.

Q. You use the words "for example".—A. Yes, there are other cases. Take the case of the Bankruptcy Act; the fees of liquidators have not been adjusted for a number of years.

Q. Are these cases general or limited in the number?—A. They are limited in number.

By Mr. Noseworthy:

Q. Is the Auditor General's opinion that these fees are not in line with present day fees?—A. I am guessing to the extent but take for granted that a cost established in 1909 would not represent the cost in 1956. I am just going on that proposition.

The CHAIRMAN: On the other hand, Mr. Sellar these are services to the public, are they not, and the total amount would not be very great?

The WITNESS: Oh no, the amount involved is only about \$5,000 in this instance.

The CHAIRMAN: There are no other questions on paragraph 21, so we will proceed to paragraph 22.

By Mr. Monteith:

Q. In this paragraph Mr. Sellar you mention three special situations. Take this first item relating to Halifax—that is purely because of local provincial laws?—A. Yes sir.

Q. And in the second case you say that this sheriff was following a practice that has since been corrected?—A. I think it has. I cannot tell you for certain because we have not been into the office since. The difficulty in the

second case is the practice could be unfair to a debtor because, strictly speaking, penalties continue to run until we get the money, and the fact that the sheriff holds the money does not mean that the income tax people have it.

Q. In other words the sheriff may hold the money and have to go back to the debtor for more because he did not turn it in?—A. He is a very good sheriff; we are not criticizing him—just the practice.

Q. And in the third case I assume that this sum of \$8,675 has now been turned over?—A. At the time of the audit it had not been turned over. Whether it has been turned over since I do not know because we have not been in the Montreal office recently. We shall be in there this spring.

Q. Just as a matter of interest how many income tax collection offices are there across Canada?—A. I would have to get that figure for you sir.

Q. Do you visit them all—or do you visit them all periodically?—A. Periodically sir. We take certain areas and we try to cover them all over a reasonably short cycle of years.

Originally we had no authority to go into income tax offices at all—it was ruled that we had no authority to do so—but when Mr. F. H. Brown was made Commissioner of Taxation he indicated to me the desire that we should go into everything and his successor, Mr. Scully, felt the same way. Then the act was amended in such a way that we were made responsible for going in and examining the assessing process.

The CHAIRMAN: When was that amendment made?

The WITNESS: In 1951. We meet with splendid co-operation from the income tax people both in the field and in the head office.

By Mr. Monteith:

Q. Do you find that the diligence with which the collection of arrears is made is equal in all offices?—A. No, one cannot say that because to a degree it depends on the man at the top. If you have a man there who is advanced in years and he is beginning to slow down he is naturally not as full of vim and vigour as a fellow who hopes to get ahead.

By Mr. Tucker:

Q. How does the government enforce Exchequer Court Judgments in Nova Scotia?—A. I believe the government was trying to work out an arrangement with the province.

Q. I thought you would know just whether they were enforcing these payments or not. There are great possibilities in this, I can see.

By Mr. Harkness:

Q. Is there any provision that these collections which are made by sheriffs should be turned in immediately they are collected?—A. It is a general practice. Cases quoted are exceptions.

Q. But there is a definite regulation?—A. It is not a regulation; it is a definite provincial rule that as soon as a sheriff collects money he should turn it over, and it is the job of the dominion government officials to see that they do.

By Mr. Cameron (High Park):

Q. Do you run across cases where a taxpayer has been penalized as a result of failure to turn in money?—A. No, but we do see considerable paper work spent on calculations to see that a taxpayer was not unnecessarily penalized.

Q. Would you not consider that when a man passes money over to the sheriff he terminates his liability so far as that item is concerned?—A. That is my view.

Q. It just happens that the government does not get the money as soon as it should?—A. Yes.

By Mr. Mitchell (London):

Q. Have the necessary instructions been sent out to deal with this matter?—A. The income tax head office acted immediately on this.

By Mr. Monteith:

Q. Mr. Sellar, in auditing the affairs of these various branch offices did you consider it your duty to check on the amounts of penalties charged to taxpayers, interest charges and that sort of thing?—A. We pay more attention to the system than we do to individual files. We just draw out individual files to see how the system is working. We do not particularly set out to look into penalties, interest charges and so on. I would therefore have to ask my men to what extent they check the calculations for penalties and such matters.

Q. I do not know whether this question should be put to you or not, but I would be interested if you could answer it: has a local income tax office the power to forego a penalty?—A. I am not certain as to the general practice; it may vary in accordance with the size of the office. They may give more discretion to a senior official in Toronto than to some small office. However, I think they may enjoy discretion up to a certain amount; when dealing with amounts in a higher range they would have to refer to head office. I would have to verify that.

By Mr. Regier:

Q. Is it a case that some officials of the income tax department are permanently assigned to one corporation?—A. That is a question you would have to ask the income tax department. I have not the answer.

Q. Is it within your power to make any recommendation as to the salaries offered to income tax auditors? To mention the point which I have specifically in mind, I have on numerous occasions heard it said that when a smart civil servant working for the income tax branch shows his ability, the firm that he has been working on is able to hire him away from the Civil Service with the result that all those whom we have working on behalf of the public are the beginners.

Mr. CAMERON (*High Park*): On a point of order, Mr. Chairman, has this anything to do with section 22 of the auditors' report?

Mr. REGIER: I was asking, or attempting to ask, whether it is part of Mr. Sellar's responsibility to make recommendations on how we might retain in the income tax branch civil servants who show some ability.

The WITNESS: I think the answer must be: no.

By Mr. Mitchell (London):

Q. I presume, Mr. Sellar, that the last sentence of the paragraph simply draws attention to the fact that this Waterloo outport has remained open regardless of the fact that it was directed to be closed in 1954. Is that right?—A. In part, yes. There is a need for the outport, and it is being run cheaper than it was before; but I wanted to suggest that some time, when the act is opened up, that section could be amended.

The CHAIRMAN: Are there any questions on paragraph 24?

Any questions on paragraph 25?

By Mr. Harkness:

Q. These two paragraphs deal with very much the same thing?—A. Yes. It is all the same.

Q. And what you are dealing with is whether it is appropriate for this fund to be operated this way and whether there is parliamentary authority for so doing?—A. Yes, simply from the viewpoint of the House of Commons maintaining control over public money.

Q. Have you any suggestion as to how this might be handled, apart from the way it is being done here?—A. I have no objection to this, except that I think that it should be authorized by parliament. Let us take, for example, the immigration authorities; they operate various services for immigrants, providing meals and so on. The immigrants pay. Part of those charges are absorbed by the votes for immigration and part are paid out of the revenues. In this case the effort is made to charge everything against the operation. I favour everything being done under one heading, because then it is possible to see what the cost is. But strictly speaking I doubt if there is complete parliamentary authority for the practice of the Department of Transport, though I think it is sound.

By Mr. Mitchell (London):

Q. In other words you recommend that the total cost of the operation be shown and a credit also shown for the amount contributed by the immigrants?—A. Yes, I would like it run as a business proposition. If you have a commercial operation I suggest you should run it as a commercial operation with the net deficit—if there is a deficit—appropriated by parliament and any surplus—if there is a surplus—credited to the consolidated revenue fund.

Q. I am just trying to get this cleared up. Are you in fact recommending that the total cost of the operation should be charged and shown, together with any returns which may come in—in this particular instance from the provision of meals to immigrants—rather than the present practice of simply showing a deficit under the particular operation?—A. I am not sure that I clearly understood the point involved but what I favour is this: I do not believe in making estimates larger than they need to be, and when you are going to perform a service from which you derive a revenue I would appropriate the net amount required for that service so that it is not possible to use the money for some other purpose. But, as I say, there is a disagreement in the public service on the question of which viewpoint is correct.

By Mr. Harkness:

Q. In fact what is happening here is that this vote is being made and there is no need for it?—A. Which are you referring to?

Q. To number 25.—A. All right, there is a little problem here. You have these catering services at Gander which are being operated by a commercial caterer, and some of the phases of activity are returning a profit while others are sustaining a loss. In addition the department is bearing certain charges directly. We are taking the income from the operations into a vote, making payments out and just dealing with the net. On the other hand in the same estimates you have a \$1 appropriation authorizing the Federal District Commission to use rentals from housing that has been acquired by them for the national capital plan. You have considered it necessary to put a specific item into the estimates to give them that power, but in the case we are discussing you have not put in anything. That is my whole point. I feel you have not got the entire protection to which you are entitled.

The CHAIRMAN: You think the act should be amended to give that protection?

The WITNESS: That is my feeling, but others have different opinions; the Department of Finance does not agree with me entirely.

By Mr. Applewhaite:

Q. When I read this paragraph some time ago I thought what the Auditor General was telling us was that if these lines of small print at the top of page 9 had formed a specific item in the estimates the position would be legally clear.—A. That is correct.

The CHAIRMAN: Are there any questions on paragraph 26?

By Mr. Harkness:

Q. Paragraph 26 discloses a difficult situation inasmuch as \$500,000 was authorized and \$2,200,000 spent. That difficulty arises in the same way, I take it?—A. Yes sir. In principle there is no difference.

Q. But in effect parliament has no control over this \$1,750,000 which was used, and in your view parliamentary control should operate as far as that expenditure is concerned?—A. My view is the one I expressed in reply to the last question put to me: it would be desirable to have an item in the estimates indicating how parliament consented to that being done.

The CHAIRMAN: Are there any questions on paragraph 27?

Mr. APPLEWHAITE: Mr. Chairman, I presume nothing has been done with regard to D.V.A. in order to continue to get that percentage of receipts from the telephones for the welfare work?

The WITNESS: Nothing has been said to me this year about it, and therefore I cannot answer your question.

The CHAIRMAN: Are there any questions on paragraph 28?

By Mr. Monteith:

Q. Is the net result of this the fact that Canada has spent this amount of \$680,000 on behalf of the Colombo Plan but that we do not receive credit for having spent it in India? I was just wondering.—A. The word "credit" could be treated in two ways. The Indian government is appreciative of our sending the boilers. On the other hand it would be possible to say that the \$600,000 was not added to the counterpart funds being used for economic development projects. In the second sense we are not getting any credit.

Mr. HARKNESS: In effect what has happened is that \$680,000 has been spent which was not authorized by parliament?

The CHAIRMAN: I don't think that is right.

The WITNESS: It was spent as authorized by parliament but the Indian government was not required to set up a counterpart fund.

The CHAIRMAN: Is it not a fact that because the Indian government valued our contribution at less than cost the Indian people got that much less benefit out of the counterpart fund that should have been set up to equalize our contribution?

The WITNESS: Yes, but the reason I am bringing this to your notice arises from a little question of principle on which I don't know the answer. The agreement with the various governments in South and Southeast Asia provides that the rupee equivalent in this counterpart fund shall be the equivalent of the Canadian dollar cost. Those agreements have come to the notice of parliament and form part of the treaty series that the Department of External Affairs puts out.

In this particular case there is a departure from that provision. The department itself feels the action taken was quite proper; the boilers did in fact represent economic development expenditure and it was merely a matter of convenience that the total amount was not added to the rupee account. However, I entertained doubts as to the discretion of the department not to insist that the full amount be set up in the rupee account and therefore I bring the matter to your notice. I know the department does not share my view.

Mr. HARKNESS: That is the point which I was trying to make. Parliament has directed that the money be used for a certain purpose and in a certain way, and in this case it was not done.

An Hon. MEMBER: May I ask, with regard to that—

The CHAIRMAN: Perhaps we should have that point answered before we go further.

The WITNESS: What was the question again?

The CHAIRMAN: Will you repeat the question, Mr. Reporter?

REPORTER (reads): Parliament has directed that the money should be used for a certain purpose and in a certain way, and in this case it was not done.

By the Chairman:

Q. What do you say to that, Mr. Sellar, it seems to me what Mr. Harkness has said is not correct.—A. It all depends sir on what is the effect of what I call these treaty agreements which are a statement of principle—whether those are binding and whether you made the appropriations subject to the provisions which they contain. In the same account as you have before you, you will find an expenditure representing about \$900,000 worth of diesel engines for Ceylon—an expenditure which also included the same provision with regard to the rupee account. Ceylon put up the full amount in the rupee account. Turning to the case of India, India got the boilers and put up this lesser amount. I don't say that any law has been broken or that this is an irregular payment, but it is a question of whether or not we should have insisted that both countries be treated alike and the value of Canadian costs be the yardstick.

Q. But from the point of view of the money provided by parliament here, that \$600,000 was actually disbursed in Canada for the purpose authorized by parliament, was it not?—A. Yes.

Q. So it is not exact for Mr. Harkness to say that the \$680,000 which was voted by parliament was not used for the purpose for which it had been voted? In fact it had been used for the purpose for which it was voted.—A. If you adopt the broad meaning that I think the Colombo Plan intends to convey, namely the economic development of the countries in South and Southeast Asia the \$680,000 did not go to a specific project such as would be deemed a project within the meaning of the treaty series.

Q. That is, the counterpart project organization that was set up.—A. The dollars certainly helped India, and what helps India indirectly helps her directly. It is simply, as I say, a question of the principle as laid down in the printed statements that come before parliament which said that the Canadian dollar cost would be treated as the yardstick for the rupee account. In this case that was not done.

I don't know whether the provision is permissive or not. The words "Colombo Plan" constitute a very broad expression.

Q. I would ask one question to clarify this: Is it not a fact, Mr. Sellar, that the money actually voted by the Canadian parliament was spent in Canada and that the only thing you are complaining about in this paragraph is the fact that the counterpart fund against which it is being set off in India is

not as large as it would be if the locomotives had been valued at their actual cost in Canada?—A. I would say: yes. You are right, sir, except that I do not like the use of the word “complain”. I am just drawing your attention to this matter.

The CHAIRMAN: I withdraw the word “complain”.

By Mr. Tucker:

Q. Surely the fact that certain agreements are in effect at the time money is voted by parliament does not preclude the Canadian government from modifying those agreements in order to carry out the purposes of the Colombo Plan if it wishes to do so? In other words, if the government finds it necessary in the case of one particular country to say: “instead of your appropriating the full amount we realize that you are in somewhat of a difficult financial position and we will undertake to modify the agreement” that would be in order.

I suggest to you that the government has full power to modify the rules which it makes as long as the money which has been voted by parliament goes to the Colombo Plan. That is all we are concerned about, and whether the government has modified the plan or not it will have to answer to parliament for its actions. But so long as the money goes to the plan, whether it goes under the agreements which existed at the time the money was appropriated or whether it goes under the agreements as they are modified later on, I submit to you that the government has a right to act as it thinks most advisable. It does not necessarily have to spend the money on the basis of the plan as it was originally drawn.—A. In reply to that, Mr. Chairman, I would say that I am not thinking in terms of the government of Canada. I think in terms of the House of Commons whose officer I am. I see the government of Canada modifying the terms of a standard agreement. Whether the government of Canada has the power to do this or not is not my business. My business is just to draw this matter to your notice. You can throw it out of the window if you like.

Q. Is it not true that when we voted money for the Colombo Plan we voted it for the government to use for carrying out that plan by means of agreements which it considers appropriate, and that the government is not bound to pay out the money under a certain line of agreements that existed at the time the money was voted. The House of Commons exercises its power in giving the government the right to make these agreements and to spend this money. If the government exercises these powers I do not think it is an infringement upon our power of control, because we retain control over the government's rights to make agreements, and in that degree we exercise control over the method of expenditure. As I say I do not think there is any infringement of our power of control over the expenditure of money.

The CHAIRMAN: Well, the Colombo Plan authorities report to the house, and then we get a report of what has been done with the money that we have voted.

Mr. TUCKER: And there are different agreements with different countries, and they have to be varied from time to time.

Mr. HARKNESS: What you have been doing, Mr. Sellar, I take it, is pointing out that the departments have been to some extent arrogating to themselves the power to spend money, and there is some doubt whether they were authorized to spend it—authorized by parliament—to spend it for this particular purpose.

The CHAIRMAN: That would not apply to paragraph 28.

The WITNESS: I would say it is not that. It is whether they are spending money in the manner parliament contemplated.

Mr. HARKNESS: That is what I said, or what I intended to say—that they were spending this money, and there is some doubt as to whether that was what parliament had intended they should spend it for.

By Mr. Noseworthy:

Q. I wonder if I might be permitted to direct a question to Mr. Sellar. Is it correct to say that, in this particular case, the government of India received \$680,000 less because of this deal than they would have received had the money been paid to them—that is, instead of locomotives—and that the government of India actually lost \$680,000, or did not receive \$680,000 of the vote that was voted by parliament?—A. My answer to that would be, “Yes”. But, on the other hand, what is the real value of the boilers?

By the Chairman:

Q. Is it not a fact—just to clarify this point—is it not a fact that the whole of the money voted by parliament, including the \$680,000, was disbursed in Canada, or actually paid out, as you say in the note on page 10?—A. It was all paid out in Canada, yes.

Q. It was all paid out; and it was used for the purposes for which it was voted by parliament, was it not?—A. It was used for the purposes of the Colombo Plan.

Q. It was used for the purposes for which it was voted by parliament, in the sense that it was spent in Canada to pay for locomotives sent to India afterwards.

Mr. NOSEWORTHY: Nothing was said about locomotives.

The CHAIRMAN: Just a moment, now.

By the Chairman:

Q. Is it not a fact, also, that because the Indian government have valued these locomotives at less than their cost in Canada, the counterpart fund that was set up against that in our agreement with India was less than it would have been otherwise?—A. That is right.

Q. But, still, I come back to my point, that the money voted by the House of Commons was actually spent for the purposes for which it was voted, but that it did not produce the results that had been expected; is that not right?—A. I am not so sure you would say, “the results that were expected.”

Q. When I say “the results that were expected” I mean that the counterpart fund was not at the amount we thought it would be, because the Indian government valued these locomotives at less than their cost.—A. With our consent.

Q. With our consent?—A. Yes.

By Mr. Maltais:

Q. Is the technical assistance Canada provides under the jurisdiction of the Colombo plan vote charged against this vote?—A. Yes. You have to bear in mind that there is a special account called the Colombo plan account. But it does not expire at the end of any year. It is cumulative, so that this vote is credited to that account, and all charges for technical assistance are charged against that account.

Q. Would you say that if one of those experts was a Canadian at a very high salary, and they were free to get an expert from another country at a cheaper rate, that the Colombo plan would be short of the difference between that salary, because of the cheaper price for the labour than we find here in Canada? I will try to make my question clearer than I have up to now. An expert in Canada, an engineer let us say, at \$10,000 a year—he could go to work

in India under the Colombo plan. If a French engineer were willing to work for \$8,000, if India was free to pick up its own expert, would mean that the Colombo plan in India would be short by \$2,000, because the Canadians have sent over their own expert at a higher rate of pay than the French would have done—that is, if India was free to pick up its own expert?—A. No, that would not arise, because we would not allow India any discretion in the matter, if we picked out the expert.

Q. Does not the agreement, the Colombo plan, provide that we also pick the type of help that we are going to give to India, whether it be in the nature of locomotives, or whether it be technical assistance, or whether it be something else? This matter of \$680,000 has arisen out of the valuation, as I understand it, that we put on certain things that we had provided to India under the Colombo plan?—A. Yes.

Q. It could have been more or it could have been less, if some other country had put a lower valuation on its locomotives?—A. If no other country had offered it as cheaply as Canada, there would be no difference.

Q. There would be no difference?—A. Yes.

By Mr. Applewhaite:

Q. Can Mr. Sellar tell us whether the request for us to consent to the lower valuation of these boilers was made before we shipped them, or after the boilers had arrived in India?—A. Negotiations were before; but it was not much before. It was just about the time of the shipments. I am talking about the final shipment. There may have been more than one shipment. But it was more or less about the same time. There would be a few months' difference, perhaps, but not much.

By Mr. Thomas:

Q. Would not the whole point be as to whether or not the Canadian government should insist upon the Indian government making up the difference between the selling price of locomotives and the cost to the Canadian government?—A. Again you are getting me into a matter of policy, which I would like to avoid. I would say that my point is this: is it of interest to the House of Commons that something was accorded for less, on a charge to a vote labelled, "Colombo Plan." I would not like to discuss the policy angle.

By Mr. Noseworthy:

Q. Can Mr. Sellar tell us this: is this an isolated example regarding the Colombo plan, or does it apply in all cases where we give to these Asian countries goods manufactured in Canada and charged at the Canadian price?—A. Mr. Chairman, my reply to that would be this, that we have made shipments of wheat to India, and I think also to Pakistan. Perhaps we have also shipped to Ceylon. Those have gone in at the world price, which was the price Canada paid for it. We have shipped some other materials also—where it was the world price—and it has gone in at that price.

In this particular case, the Indian government was not really buying. It was the Indian railways, which is a separate corporation—and that is how this difference in price comes in. But where the Indian government has received things and kept things, they have invariably, to the best of my knowledge, put up the rupee equivalent in the Canadian case.

By the Chairman:

Q. Was this an isolated case, you might say?—A. Yes, that is why I bring it to your attention.

Q. Then, if there are no more questions on paragraph 28, we will go to paragraph 29.

By Mr. Monteith:

Q. Mr. Sellar, you mention these two items—I believe there are three items—in connection with the expenditure on the Garland building in Ottawa, and that they have been distributed between two different votes?—A. Yes.

Q. And you give this as an illustration; and I presume there are other instances which have come to your notice in the past, where a similar situation has developed. Your thought, I presume, is that under one vote the true expense involved is not shown?—A. That is correct. I am relying on a long-established practice in the United Kingdom.

It originated when they purchased a piece of land for the parliament buildings at Westminster, back in the last century. There was a question of the legal charges on the transfer of the land. There was a legal vote and also a vote for the purchase of the property. The question was as to which vote those legal charges should be allocated. They charged them up against legal cost and the public accounts committee disagreed. The reason was—and I shall read the reason—they wanted to charge it to the land. The reason was as follows:

The advantage of such procedure would be that the facts would be so recorded that there would be no possibility of the charge being lost sight of, as part of the cost of the service, in case it became necessary to ascertain the actual cost, whereas if charged to the law vote it might escape notice of anyone preparing the total cost statement in the future.

It was just to get it all under one heading, so that if you ever wanted to look up the cost of that particular thing, you would find it right there in one place, under one heading.

Q. But your recommendation would be, I presume, that that particular method should be followed in the future—that is, everything having to do with one particular item of business should be charged to one vote?—A. The department and the treasury both agree with me, that it is desirable to avoid splitting.

By Mr. Applewhaite:

Q. Is not the logical result of that set out under vote 376, which deals with unforeseen amounts? Would that not be met there?—A. No, because unforeseen amounts, unforeseen improvements, are to cover something that could be anticipated or guessed at the time the estimates are being prepared. Perhaps you have a fire or there may be a hurricane, and you need to do something in future, and you need money to finance that cost.

Q. I do not wish to argue, Mr. Sellar, but I wish to follow that up. Is repairing damage caused by fire or by hurricane unforeseen improvement, or is it not repairs and renovations?—A. I would say—and, again, perhaps I am careless in my wording—it is unforeseen expense.

Q. Unforeseen improvements, surely, of the same sort could happen?—A. That could happen if you suddenly got a very bad leak in a roof, or something like that.

Q. That amount would still be charged to some building. And if you extended it to this unforeseen improvements vote, has not the same situation arisen to which you have drawn attention here?—A. Well, you have to bear in mind that the Department of Public Works get quite a grilling when they come before treasury board for their estimates. They have to establish pretty well why they want the money, and they identify it with expenditures that they plan to make on specific buildings, all over the country. Then, they say,

"There are some buildings that we think are in perfect shape, but something may happen to them during the year, and we may have to do something. Give us a little money for them."

Q. It is sort of a contingency fund?—A. Yes.

By Mr. Tucker:

Q. I am looking at paragraph 29. I note that the vote says, "Maintenance and operation of public buildings and grounds, including repairs and upkeep—". You vote certain money for the repair of an elevator. You will vote to repair an elevator and you find that it will be impossible to repair it, and that you should replace it. We have no right to replace it under item 362, because that applies only to repairs and upkeep. The right place to put it is under "Unforeseen improvements". I submit that that is a proper use of the money voted by parliament—to vote a certain amount for repairs. And then they say, "If there should be an unforeseen improvement required, we will give you so much money to do that." When you put in a new elevator, that is not a repair; it is a replacement, a capital expenditure. And I submit that that is the purpose of the appropriation—I submit that, with all deference. It is for the proper use of the money voted by parliament.—A. If you were to look at the full text of the vote, and the heading for it, you would read these words, which cover this particular vote, "Acquisition, construction and improvement of public buildings; construction, acquisition, major repairs and improvements of, and plans and sites for public buildings listed in the details of the estimates." That covers almost everything.

This, in my opinion, was more or less of a slip-up in this particular year. There was enough money in the vote. There was no effort to find a place to make an expenditure when there was no money. There was enough money in the vote. But, by chance, the cost was split. As I say, all concerned think it would be fairer to the House of Commons if, in future, we tried to keep all expenditures under a single heading.

By the Chairman:

Q. All expenditures for one building, do you mean?—A. Yes.

By Mr. Harkness:

Q. In other words, if in the discussion of the estimates the wisdom of having made these repairs, and so on, were brought up, the member bringing it up might very well not realize that there was this extra \$35,540 that had been spent?—A. That is right.

By Mr. Applewhaite:

Q. What vote was that you were reading from, Mr. Sellar?—A. From the heading of the Public Works estimate.

The CHAIRMAN: It was vote 362.

Mr. APPLEWHAITE: That is not vote 362; that is from the heading.

The CHAIRMAN: Then, are there any questions on paragraph 30 in the report?

By Mr. Harkness:

Q. It is a small payment which was not authorized, and is a straight example of unauthorized expenditure?—A. No, it was properly authorized. It was just a question of whether there is the obligation to pay for what you might call provincial services. Whether the parliament of Canada should sanction it. This is just a very small item, but I am obligated to draw it to

your notice. I do not think, as a matter of fact, that you should bother your head about it, that is my humble opinion, if I may express it.

The CHAIRMAN: Then, are there any questions on paragraph 31?

By Mr. Harkness:

Q. On paragraph 31 it says, "A special clause has been written in to the effect that funeral expenses were to be a first charge." Who would write in this special clause?—A. We are not certain about it but it would be some officer in a district office who handled the insurance, when that man came in and wanted an insurance policy. It was written in by some official, unknown to Ottawa.

Q. And it never should have been written in?—A. No, it is against the law.

The CHAIRMAN: Then, are there any questions on paragraph 32? If not, are there any on paragraph 33?

By Mr. Harkness:

Q. On paragraph 32, this is another clear example of a debt being written off, which there was no power to write off.—A. The proper action in this case would have been to decide, "we are now going to press for payment, and set it up as an account receivable, and at the end of five years we will go to parliament and ask for authority to write it off. But we are watching, in the meantime, just in case the party may become solvent." It is a hard luck case.

Q. I think what was done was quite justified; but the general point it brings up is this: what means is there to prevent such things taking place again?—A. Just the attempt I am making now, the action I am now taking, to draw it to your notice. You have enacted—and perhaps at this point I might read from the Financial Administration Act, which says:

The Governor in Council, on the recommendation of the treasury board, may, if he considers it in the public interest, delete from the accounts in whole or in part, any obligation or debt due to Her Majesty or any claim of Her Majesty (a) that does not exceed \$500 and has been outstanding for 5 years or more or (b) that does not exceed \$1,000 and has been outstanding for ten years or more. They should have waited five years.

Q. Yes, but when something has been done contrary to that act, what punitive measures are possible which would probably prevent a recurrence of this?—A. We have arranged that they would set it up in their accounts again.

Q. So that it is now back as a charge?—A. Yes, it is now back. The department was not trying to put across a fast one.

By Mr. Tucker:

Q. In other words, the direction not to collect this account was regarded by the people involved as an extinguishment of it; whereas by law, it could not be extinguished in that way. It was a matter of giving proper recognition to the order in council. I suggest that the order in council was not out of order at all, because they surely have the right to say, "we are now trying to collect this debt." The fault is not with the government, but with the way they treated the order in council.

By Mr. Harkness:

Q. I suggest that the fault is with the government, in that they were trying to set aside the law.

Mr. TUCKER: I suggest that is not so.

The CHAIRMAN: Let us get the answer from the witness.

By Mr. Tucker:

Q. When you say that you waive collection, you do not try to extinguish the debt. You simply say that you are not going to try to collect—and they have the right to do that. But they have no right to write it out of the accounts until five years have passed.

The CHAIRMAN: Now it has been written back into the account, so everything is all right.

Mr. TUCKER: I submit that waiver does not mean extinguishment. Waiver of an attempt to collect does not mean extinguishment. Anyone who has tried to collect accounts from time to time must know that you waive collection, but that does not say that you have no right to collect it.

The CHAIRMAN: I suggest it would be difficult for Mr. Sellar to give an opinion on the order in council, without seeing it.

Mr. TUCKER: But I presume that Mr. Sellar looked at the order in council before he wrote this paragraph in his report.

The WITNESS: I think I can dispose of this matter in short order. The point is this: the order in council used the word “waive.” I have the text here, and it states that treasury board recommends that authority be granted to waive action to recover from so and so.

By Mr. Tucker:

Q. In other words, they say, “we will not take action to recover”.—A. What happened is this: you lawyers may place great emphasis on words, but we civil servants respect authority. We would consider that as meaning that the government had said, “Do not collect from this woman; forget it”. And we would just—well, we would not bother putting it back in the accounts at all. We would not give it, perhaps, the legal meaning that you give it.

I suggest that the legal meaning is the proper meaning, and that they have not done anything improper when they say that they waive the attempt to collect it. But they have not attempted to extinguish it by passing an order in council. So I suggest that you are suggesting that the government passed an order in council that it had no right to pass.

Mr. MONTEITH: Probably the hon. member for Rosthern should be the Auditor General.

Mr. TUCKER: No; we are sitting in this committee, and I have a right to make comments, just the same as hon. members of the opposition parties.

The CHAIRMAN: Well, gentlemen—

Mr. TUCKER: If Mr. Sellar disagrees with my suggestion, that the waiver of the right to collect does not mean extinguishing the debt, then I invite him to say that.

The WITNESS: I simply say that civil servants are not lawyers and they do not consider words with such great care. They would just regard this order in council as saying, “That is done; forget it”.

By Mr. Cameron (High Park):

Q. Did they read section 23 of the act?—A. We have done so.

Q. You have done so; but civil servants are just as smart as others.

Mr. HARKNESS: The fact is that there was no authority for the order in council, and you are drawing it to our attention.

Mr. TUCKER: That is the whole point; I suggest that there was authority for the order in council. They have the right to say to their administrative officers, "You do not need to collect this account." That is the point I make. There is the suggestion here that an order in council has been passed that the government had no right to pass. My suggestion is—I challenge that suggestion, as made by Mr. Sellar, to the committee, by saying that it was not properly given effect to in the bookkeeping.

The CHAIRMAN: And it was reestablished in the bookkeeping.

Mr. HARKNESS: Mr. Tucker is losing sight of the fact that there is an act which forbids this order in council.

Mr. TUCKER: I suggest that the act does not forbid it, at all. The act says that a debt cannot be cancelled; but there is nothing to say that you are to pursue a person, if they cannot pay.

The CHAIRMAN: Well, we have taken note of the different opinions that have been expressed. I think perhaps now we might pass on to something else.

Mr. MONTEITH: I suggest this is a case where the government has acted by order in council, and where the matter should have come before parliament for consideration—in connection with using this fund for research.

The WITNESS: If I might draw your attention to this, I would say that the main estimates for the present year, under item 284, regularize this whole thing. They have agreed with the view that we have advanced, and they are now bringing it to parliament, so that it might be right in the future, and also to regularize the past.

By Mr. Tucker:

Q. Does that estimate say that the debt shall be extinguished? Does that estimate say that it shall be extinguished?—A. No—I would say that we are now discussing paragraph 33.

The CHAIRMAN: Yes, we are now on paragraph 33.

Mr. ARGUE: You are just one paragraph behind.

The CHAIRMAN: Are there any questions on paragraph 34?

By Mr. Monteith:

Q. This suggests that, apparently, a lot of orders are placed at the end of the year, and deliveries are not made. Cheques are issued in payment of those orders, and the cheques are not properly given in payment until delivery is made—which delivery may take place several months after the expiration of the fiscal year; am I right so far?—A. Apart from the fact that it might be implied that you were thinking that they had issued orders about March 31. That would be wrong. It would be some time in the earlier period. But they had not been delivered as of March 31. Then, as you say, cheques were drawn, but they were not released until several months later.

The CHAIRMAN: Would they not come under the treasury board?

By Mr. Monteith:

Q. Would that be done in an attempt to use up the vote?—A. I would not say it was, in this case. I do not think there was any wrongful intent. But it

is a bad practice. Again, if I may quote from one of the standard authorities on the subject, I would point out that he used a very simple description when he said:

Generally speaking, payments should not be made except in very special cases, until the conditions entitling the contractor to receive such payments have been fulfilled, especially as there is a natural tendency at the close of a financial year to make advances for payments on account rather than to have to surrender a balance and increase the burden of a subsequent year.

In effect, there was a little more money available in the present year than there would have been. We have had cases, sir, when we have taken delivery in yards. There was one particular case years ago where a steel company in Winnipeg was prefabricating steel for a building in the northwest. We had the money and they had the steel, but owing to very severe storms they were not able to ship it before March 31. They stacked the material in a special corner of the yard. The government engineers inspected it, found it satisfactory, and secured the consent of the governor in council for a payment on account.

By Mr. Monteith:

Q. To continue this for a few seconds—you mention this case up in the north, but a similar procedure has not come to your attention in any other department?—A. No sir. That is why this one stands out.

The CHAIRMAN: Would not this irregular way or proceeding be due to weather conditions and to the conditions generally up north?

The WITNESS: I have no idea what was the reason for it. There was a change in practice as compared to past years.

By Mr. Monteith:

Q. You are pointing out that there was \$55,000 in cheques spread over 75 cheques issued and drawn in April of which 28, representing \$8,660, were still being held at the time the audit was completed in August?—A. Yes.

Q. To all intents and purposes some of these might still be held?—A. I have not looked at the matter since preparing the report.

Mr. NOSEWORTHY: What is the sum total involved? I thought that if this had been closed out at the end of year as required by statute the department would have had to come to parliament for a larger grant the following year than was necessary, by reason of the fact that they were holding back these cheques.

The CHAIRMAN: Well, Mr. Noseworthy, I think we could probably get information on that point from the Department of Northern Affairs and National Resources. We could hear someone from that department later on if it is the wish of the committee.

By Mr. Tucker:

Q. Do you consider that when a cheque is issued and not paid over the amount is paid?—A. The regulations and rules governing the treasury provide that cheques must be released and paid to the recipient forthwith. We cannot regard expenditure as having occurred until that happens.

Q. But if you issue a cheque and do not hand it over, have you actually made payment? There is a suggestion that something has been done which is contrary to the act.

Mr. MONTEITH: It is charged in the account.

By Mr. Tucker:

Q. Is the suggestion being made that the act has been infringed? I would ask you this: if you issue a cheque and keep it in your possession have you actually made payment? If you regard it as an expenditure—in recording it on the account at the end of the year they show X dollars spent when, in fact, it is in their possession. It does not infringe the act?—A. It is regarded as an expenditure.

Q. In other words, the bookkeeping has not been right?

The CHAIRMAN: As I said before, Mr. Tucker, I think we could probably get an explanation of that from the department concerned.

Mr. TUCKER: What I am concerned about is whether there has been an infringement of the act, and I am suggesting that there has been no infringement of the act because the money has not actually been paid.

The CHAIRMAN: My suggestion is that we will know better if we get the facts from the department.

Mr. TUCKER: I am taking the view that a cheque was not handed over.

Mr. MONTEITH: I am suggesting that it has been, because it is shown in the Public Accounts as having been spent.

By Mr. Tucker:

Q. What in Mr. Sellar's view constitutes payment of an account? If the government sends you a cheque and then holds it up would you consider that you had been paid that amount?—A. There is one exception that I would be inclined to make—an exception under which I would regard payment as having been made and as a proper charge on expenditure, and that is when you purchase land and the title has to be cleared. In these circumstances the Department of Justice asks for a cheque that it can pay over. In some cases that is regarded as expenditure.

Q. And properly so because that goes in trust, entailed to the vendor.—A. Otherwise, though, I would not regard payment as made until the recipient has the money.

Q. So it should not be regarded as a payment. I was just wondering.

Mr. HARKNESS: The main point has been made by Mr. Monteith when he suggested they wanted to use up that vote before the expiry date and therefore they issued the cheques.

The WITNESS: In reply to that I can only say that I do not know what the department had in mind. It was the practice that was adopted. Whether they were intending that should become a standard practice bearing in mind that they are now getting lower estimates every year, I don't know.

Mr. REGIER: What would happen if any of these cheques were never paid out because delivery was never made?

The WITNESS: The cheques would be cancelled and the consolidated revenue would be credited with a refund on previous years' expenditure.

The CHAIRMAN: Are there any questions on paragraph 35?

By Mr. Applewhaite:

Q. In connection with these large sums of money deposited in the United States well in advance of delivery, what I would like to know Mr. Chairman is this: are they converted into United States' funds involving foreign exchange, and if so at what rate; is the conversion made at the time we deposit the money or at the time the various deliveries are made, and if a foreign exchange premium or discount is involved where does it show in the Public Accounts?—A. The deposit is made in United States' dollars because that is the currency

of the contract. Exchange cost may or may not be involved. Sometimes we have very large balances in the United States and funds from these may be used; alternatively there may be actual transfers from Canada in which event the charge to the National Defence account would be the actual cost of the American dollars. That means that if our dollar was at a premium the goods would cost so much less than if it were at a discount. That is the way in which the difference would be reflected.

Q. Where would that actually be shown in the accounts? Would it be reflected only in a reduction or an increase of the amount expended?—A. It would not be shown separately. It would just be shown as the amount of the contract.

By Mr. Harkness:

Q. As I understand it the situation is that the Department of National Defence places a contract in the United States. In these circumstances it is required to put up the price or a percentage of the price at the time of placing the contract. Is that the situation?—A. Yes sir. Perhaps you would like me to read you a summarized extract from the section concerned. I am quoting now from the United States Military Security Act section 106b.

Whenever equipment or materials are sold from the stocks . . . such nation . . . shall first make available the fair value . . . before delivery . . . Before a contract for new products is entered into . . . such nation . . . shall (a) provide the United States with a dependable undertaking to pay the full amount of such contract . . . and (b) shall make funds available in such amounts and at such times as may be necessary to meet the payments required by the contract . . . in advance of the time such payments are due.

That is the extract from the United States legislation. When we enter into a contract, the United States tells us in due course how much money we should put up against it and we deposit that sum with the United States' treasury. The arrangement is a good one from the viewpoint of Canada because it means that we receive the benefit of the prime contract with the American producer. We get a good price and we also get the benefit of priority in delivery. Further, we get the benefit of their inspection. Finally, and what is more important, we get the benefit of any adjustment in the pricing that the Americans enforce on their contracts. We could not enforce that, but they can.

I don't like the fact that we have to pay in advance, but the administrative staff here are all satisfied that we do get a good return through this method of purchasing.

Q. The general effect is, though, that a certain amount of money is detained in the United States on deposit and we do not know how long it will be before we get goods in return.—A. That is correct, and it also means that you are charging expenditure on National Defence this year, although you will not get the goods for another year. That is unusual.

By Mr. Monteith:

Q. You call our attention, Mr. Sellar, to the fact that \$15 million was advanced in the last few weeks of the fiscal year, but because of special circumstances, including the variety of orders placed, it appears you were not able to ascertain whether the advances in March were imperatively necessary.—A. There is a balance of \$162 million there. There was \$343 millions on deposit and \$181 million worth of deliveries which had been made, leaving \$162 million.

Q. In your work do you check to see whether that \$162 million corresponds with deliveries, orders, or that sort of thing?—A. Yes sir. One of my jobs is

to see that money is not advanced towards the year-end just to use up a vote. We went into this matter and the treasury went into it and we were both ultimately satisfied that it was necessary to make that advance.

By Mr. Tucker:

Q. You say it was not practicable to ascertain whether the advances in March were imperatively necessary. You will see now that what should be said is: It was found that the advances were required to meet the orders placed. The paragraph reads as it stands that you were not satisfied that it was necessary to make these advances, but you are quite satisfied now that it was proper to make them?—A. This report was written in the month of August. We are now in the month of March and in the interval I have been able to satisfy myself on the matter.

Q. And you have found that this was in order?—A. I would like to have my report dealt with as at the time I wrote it, sir.

Q. I am concerned with the situation as at present.—A. As of today I am quite satisfied.

Mr. NOSEWORTHY: There is no reflection on a good government.

Mr. TUCKER: All I wanted was to find out the actual facts because I conceive that there are going to be speeches made, possibly, on some of these instances and I want to have these things cleared up.

The CHAIRMAN: Mr. Tucker is just clarifying the fact that since the report was written Mr. Sellar has received additional information which makes it clear that the \$15 million advance was fully justified at the time it was made.

Mr. MONTEITH: I think Mr. Sellar had already given me that answer.

The CHAIRMAN: Yes he had. I just wanted to clarify the position.

Mr. TUCKER: I want to make it very plain that when anything is read from this report it does not necessarily apply to the present situation—there are some of my friends here whom I can envisage reading from this report.

Mr. HARKNESS: Mr. Tucker would like to have a defence on the record before there is any attack.

Mr. TUCKER: I am judging from past experience.

The CHAIRMAN: It is nearly one o'clock. Shall I have a motion to adjourn?

Hon. MEMBERS: Aye.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

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ON

PUBLIC ACCOUNTS

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

(Including First Report to the House)

THURSDAY, MARCH 22, 1956

WITNESS

Mr. Watson Sellar, Auditor General of Canada

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956

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Antonio Plouffe,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, March 22, 1956.

(4)

The Standing Committee on Public Accounts met this day at 11 o'clock. The Chairman, Mr. Charles A. Cannon, presided.

Members present: Messrs. Anderson, Applewhaite, Argue, Ashbourne, Balcom, Beaudry, Boisvert, Cameron (*High Park*), Cannon, Hanna, Harkness, Henderson, Houck, Kirk (*Antigonish-Guysborough*), McGregor, McWilliam, Ménard, Mitchell (*London*), Mitchell (*Sudbury*), Monteith, Nowlan, Pommer, Poulin, Proudfoot, Regier, Schneider, and Thomas—27.

The Committee resumed its study of Public Accounts (1955) and the Auditor General's Report thereon.

Mr. Watson Sellar was called and his examination continued.

The witness made a correction in his evidence to the Committee on March 15 with respect to the rate of interest on Annuities. (of today's evidence)

On Paragraph 36 (Auditor General's Report):

Mr. Harkness asked that the witness reveal the name of the contractor involved. Because this information could be sought and obtained at a later date from an official of the Department concerned, at which time the Committee will be examining the Public Accounts in detail, the Chairman ruled that Mr. Sellar should not reveal the contractor's name at this stage.

Mr. Harkness appealed from this decision. The Chairman's ruling was sustained on the following division: Yeas 11, Nays 6.

At 12.45 o'clock Mr. Sellar's examination still continuing, the Committee adjourned until Tuesday, March 27, at 11 o'clock a.m.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

EVIDENCE

MARCH 22, 1956.

The CHAIRMAN: Gentlemen, we have a quorum so we shall start.

Mr. Sellar, I believe, has a few questions to answer from the previous meeting.

Mr. Watson Sellar, Auditor General of Canada, called.

The WITNESS: Yes, sir. I was asked how long it was expected that credits would have to be added to the reserve in connection with the Government annuities fund. I have made inquiries of the department and their opinion is, due to the continuing lengthening of the life expectancy of mankind, that the reserve will have to be added to for many years to come, so then it will be an annual item.

The second question was, whether the 20-year guarantee was in the contracts prior to 1935. The answer is yes. It has been in since the inception of the act.

Then, I was asked the number of income tax offices in Canada. There are 28 regional offices.

I was also asked whether in our examinations we scrutinize the penalties and interest charges. I said I would have to refer to our programs to see to what extent that is done. All examiners have instructions to make the necessary tests to satisfy themselves that there is no partiality, etc.

Those are the questions.

Now I would like to correct a mis-statement I made at the last meeting.

I was asked a question, or in fact I volunteered the statement, that back in the 1930's 5 per cent was the rate used in certain annuities. Doubt was expressed as to the accuracy of that, but I persisted, and now I find I was wrong. The rate was never higher than 4 per cent. I am sorry I made that mistake.

Mr. HARKNESS: That was my impression, that it was 4 per cent.

The CHAIRMAN: Thank you, Mr. Sellar.

We shall go into the examination of the Auditor General's report, paragraph 36.

By Mr. Harkness:

Q. This appears, on the face of it, to have been a very imprudent contract so far as the Canadian taxpayer is concerned. Who made these contracts; who were the contractors?

The CHAIRMAN: I do not think that the name of the contractor should be given at this meeting. It is not customary for names of contractors to be given at meetings of this kind, and it is not fair to them to have their name mentioned here in connection with contracts when they are not here to defend themselves.

If it is the opinion of the committee that we should get the name of the contractor and go into this more fully, I suggest that this is not the time. After we have finished with Mr. Sellar we could call somebody from the department and then go into it at that time.

Mr. HARKNESS: As far as the proposition is concerned that names of the contractors and so forth are not brought up in this committee, that certainly was not the practice some years ago. I can remember several cases in which contractors and specific contracts were dealt with.

Mr. NOWLAN: Contractors have been brought before the committee. Their names must have been made available so that they could be called. That has been the practice before.

Mr. HARKNESS: I do not think there is any use in this committee proceeding, as it were, in the dark in respect to a particular matter of this kind, and it would seem to me we should be given all the information which Mr. Sellar has. If he does not have all the information we want then I think we should proceed as I have indicated and call other witnesses.

The CHAIRMAN: It would not do us any good to get the name of the contractor at this meeting this morning. We can go into that in more detail after we finish with the Auditor General. It is not fair for the names of contractors to be mentioned before the committee when the contractors are not here to defend themselves. It would not be fair to the contractor.

Mr. HARKNESS: I think you will find plenty of precedents in previous committees where names of the contractors were mentioned. We do not think this committee should take it as a general rule that we are not allowed to find out the name of any particular contractors or any particular person concerned as far as these observations of the Auditor General go.

The CHAIRMAN: I do not say it is a general rule, but I am saying, at this time, while we are examining the Auditor General's report it is not the time to mention the name of the contractor or have his name before the committee here when he is not here to defend himself.

Mr. HARKNESS: Mr. Chairman, I think that that is just going to destroy the work of the committee.

The CHAIRMAN: Certainly not. We can get that at a later date.

Mr. HARKNESS: The point is if there is any particular contractor or person whom we want to call, we have to know the name first. They can always be called later and may make any defence they wish to make.

Mr. BOISVERT: Mr. Chairman, if the hon. member is right we could have all the contractors of Canada being called as witnesses before this committee. I do not think that is the proper way to deal with this matter. I believe if the hon. member has the name of the contractor in his mind he could let the chairman know the name and we will ask the contractor to come before this committee and explain his position. But, at the present time, I feel it would be unfair to any contractor having his name before this committee before he has a chance to appear and explain.

The CHAIRMAN: It is just a matter of procedure. I am of the opinion that this is not the time to mention the name of the contractor when we are dealing with the Auditor General's report in a general way. Later on, if the committee wants to assign somebody from the department, or through some official of the department get the name of the contractor, if it is the opinion of the committee we should hear the contractor, then we could hear him at that time. He would be here and would be able to answer any questions. I rule, as a matter of procedure, that this is not the time to mention the name of the contractor now.

Mr. NOWLAN: On a point of order: There is nothing in this section which reflects upon the contractor in any way. You seem to be inferring that the contractor is guilty of some offence.

The CHAIRMAN: No.

Mr. NOWLAN: The Auditor General's report does not reflect on any contractor and I suggest that a Public Accounts Committee of the House of Commons in dealing with the Auditor General's report in which he refers to a government contract surely should have the name of that contractor. I presume that the name is in the book because presumably the contractor was paid and I suppose if one wanted he could look into this section, ask which page the particulars of this item are on, and then find the name.

I have been on this committee for some years, and when it was set up before, and I know that contractors were named and there was no question raised whatsoever.

The CHAIRMAN: There are precedents for it.

Mr. CAMERON (*High Park*): Mr. Nowlan has produced the reason. He said there is no suggestion that this contractor has done anything wrong and that there is no reason why his name be placed before this committee. We decided that if we wanted we could call someone from the department to justify this particular contract, to explain it, and I think that is the way it should be done. But, to take an isolated name of a contractor out of the air who is involved in this would be, no matter how innocent he is, perhaps placing some stigma on his name. Mr. Chairman, your position is the right one.

Mr. NOWLAN: The chairman inferred we were doing something unfair to the contractor behind his back and I said there was no reflection on him and there was no reason why he should not be named.

The CHAIRMAN: I just said, as a general principle, it was not a good practice to mention the names of contractors before this committee at this time when we are examining the Auditor General's report. That is my ruling.

Mr. HARKNESS: Mr. Chairman, I would submit that your ruling is directly contrary to the entire procedure in the House of Commons, and the procedure in the House of Commons also covers the procedure in the committees. In the house, if a member asks who had a particular contract there is never any hesitation on the part of the minister who is asked the question in stating that, even when the estimates are being discussed, on a question before the Orders of the Day, or on a written question. The matter of saying who the contractor was, to my knowledge, has never been question. The information is always given.

The CHAIRMAN: It has been decided before.

Mr. HARKNESS: Surely the name procedure must follow in this case.

The CHAIRMAN: It has been decided before that when this committee is examining the Auditor General's report is not the time to mention the name of the contractor. I do not say that you will not eventually get the name of the contractor, but I am saying this is not the time. This is not the time when the contractor's name should be put before the committee. That is my ruling.

Mr. HARKNESS: I would appeal your ruling.

Mr. BEAUDRY: On a point of order, you cannot appeal the chairman's ruling in committee.

Mr. HARKNESS: I have certainly been present on many committees when it was appealed.

Mr. APPLEWHAITE: I think Mr. Beaudry is right. I think the appeal is to the house from the ruling of the chairman.

Mr. CAMERON (*High Park*): I think we are getting worked up about nothing. Mr. Sellar is not a minister of the crown. When you have a minister

of the crown before you then you can ask these questions. Mr. Sellar is a representative of the whole parliament of Canada. He has put this information before us and I do not think he has any duty to answer nor should he be asked anything further than to make short comments. We all know there is a way this can be done. Why are we beating around the bush now trying to squeeze out the name of a contractor for absolutely no purpose whatsoever.

Mr. NOWLAN: What is this committee for but to get information. Apparently our friend Mr. Cameron thinks there is something here. We may not get any information anyway, but we certainly are entitled to ask some questions with respect to this.

The CHAIRMAN: I rule that Mr. Sellar is not to answer that question at this time. It will serve no useful purpose and it is a matter for the department. If you want to assign the minister or any employee from the department at a later date that will be your privilege; but, at this time I rule Mr. Sellar is not to answer the question. As to the matter of appealing my ruling, so as to save time I have no objection to having the appeal at this time.

Do you want to appeal to the committee?

Mr. HARKNESS: Yes.

The CHAIRMAN: All those in favour of upholding my ruling?

Appeal of chairman's ruling lost on division.

The CHAIRMAN: I declare that the appeal is lost.

By Mr. Harkness:

Q. Well, Mr. Sellar, what particular guns are these? Are these the 4.5 inch naval guns which the Canadian destroyer escort is now being equipped with?—A. I am not certain, sir. I would have to get that information. My impression is they are 6-inch, but I do not know.

Q. You do not know what particular guns they are?—A. No, sir.

Q. Have you the terms of the contract which was entered into in connection with this particular transaction?—A. In part, yes.

Q. Could you give us those?—A. You see, I have no access to the contract with the United States government.

Q. Then, I take it from what you have just said, that there was more than one contract here. There was a contract between the Canadian government and the contractor I presume and then between the Canadian government and the United States government, or was there a joint contract between the Canadian and United States governments on the one hand and the contractor on the other?—A. The contractor was a party in both contracts.

Q. Are they two separate contracts?—A. Again I am in trouble because I am not familiar with the whole file. I just know part of the files. My impression is you would regard it as two contracts.

Q. One between the Canadian government and the contractor and one between the United States government and the contractor?—A. Yes, sir.

Q. Then is there any contract between the United States government and the Canadian government involved too?—A. I do not think there is any written contract. I do not know why there would be. I think there would be discussions and understandings, but I do not think there would be anything in writing other than correspondence.

Q. Is the contract you had the one between the Canadian government and the contractor?—A. That is the one we were interested in in particular.

Q. What are the details of it?—A. The production of the guns, the cost, plus certain percentages of profits depending upon what the nature of the activity was.

Q. Can you give us the details as far as you have them?—A. That is what I mean. So far as we know it was cost plus.

Q. You do not actually have the contract before you?—A. No. On certain phases of work the plus was to be a certain percentage and on other phases it was to be another percentage. I just have the total figure, that is all.

Q. What was the percentage in each case?—A. Again, I did not expect to be asked that question and I do not have the data in front of me.

Mr. MONTEITH: Is there any reason why this contract should not be presented to the committee?

The CHAIRMAN: We do not have the contract for one thing.

The WITNESS: I do not have the contract.

Mr. MONTEITH: At some other meeting of the committee, then?

The CHAIRMAN: I said that at a later date the committee can assign employees of the department to go into this matter at greater length, if it is the desire of the committee; but this morning Mr. Sellar does not have the contract with him.

By Mr. Harkness:

Q. What are the figures you do have in respect to the contract?—A. Well, I have this, that the cost to Canada was approximately \$356,000 per gun and that in turn is made out of amounts totalling \$16,376,571.

Mr. MONTEITH: That is the actual charge to the Canadian government?

The WITNESS: That was the cost to the Canadian government.

Mr. MONTEITH: What did the original contract call for?

The WITNESS: There would be no fixed figure in the original contract because it was cost plus. The basis of the price was fixed, but not the price figure.

Mr. THOMAS: That would mean that the guns were delivered by the contractor to the Canadian government and subsequently delivered by the Canadian government to the United States?

The WITNESS: No, sir. Those are the guns, the 46 guns, delivered to Canada.

Mr. THOMAS: Just the 46 delivered to Canada?

The WITNESS: Yes, sir.

Mr. THOMAS: The point is Canada had to pay a higher price to the contractor than did the United States. There was actually no loss to the Canadian government on the guns sold to the United States?

The WITNESS: No, sir.

Mr. NOWLAN: Your position, or original basis, of paying was varied? What was the original basis?

The WITNESS: Here again I have to qualify myself because it was founded on the American contract which I do not have. My understanding was that the United States government decided to have the production in Canada, and they negotiated at that end, and that negotiation proceeded to a point where you might say there was an understanding. Then, Canada indicated an interest and the basis had to be changed on account of that interest. Furthermore the United States decided that unless it could be assured that the 180 guns were not going to cost more than \$45 million they would have to drop the matter. Their reasoning was that they had to defend themselves before congress and could not afford to pay a higher price for guns produced in Canada than they would pay in the United States to their producers there.

The CHAIRMAN: The maximum we could get for the 180 guns was \$45 million from the United States?

The WITNESS: Yes.

The CHAIRMAN: I understand the fact that we made 180 guns for the United States was also an important factor in reducing the cost per unit for the Canadian guns.

Mr. NOWLAN: Are you giving evidence, Mr. Chairman?

The CHAIRMAN: I am asking Mr. Sellar.

The WITNESS: I have been told, and I think it could be supported, that because the American order would be such a large part of the total production that various items of costs which would have fallen on Canada, were split. In other words, I was told had there been an order only for 46 guns the cost would have been prohibitive to Canada to go ahead with. Too much is involved in proceeding on a contract like that. If you want that to be spelled out you would have to get someone who knows about it from the department.

The CHAIRMAN: You said:

To an undetermined degree, subsequent production on Canadian account benefited by certain items of cost wholly absorbed by Canada under the arrangement, particularly those relating to preliminary expenses and plant rehabilitation costs.

Would you like to amplify that statement.

The WITNESS: What that means is this: As a result of that there are facilities in Canada where we could order like guns and have them produced where five years ago we could not.

By Mr. Nowlan:

Q. These facilities were prepared for this contract, were they, Mr. Seller?—A. The facilities?

Q. Yes.—A. You have to bear in mind that the tooling and preparing of plans and so on had to be done—buildings, of course, were already in existence; it was not a starting from scratch proposition.

Q. Is the cost of tooling and the preparing of the facilities all included in these items here?—A. No. Not all the tooling; but the preparing of the building plans, engineering plans, layout, the renovating of various facilities are all in there.

Q. You refer to the department. I suppose you were referring to the Department of Defence Production?—A. Yes.

Q. That is the department?—A. Yes. National Defence paid the bill but—

Q. There was a contract signed by the Minister of Defence Production?—A. There was a contract signed by the Department of Defence Production and I assume by the minister.

Q. You speak, in your second sentence, about, "during the audit one large contract was observed where the original basis of sharing was later varied" That refers to after the contract was signed?—A. I am not going to say that because I am not sure, but I know it was changed at the time when the United States indicated that \$45 million was the maximum it would put into the contract. Whether there was something signed between the United States and the contractor, or whether there was something signed between the Department of Defence Production and the contractor, I am not sure. I would have to verify that.

Q. I think earlier you said there was a contract between the contractor and the Canadian government and there was a contract between the United States government and the contractor?—A. I assume the latter. I have never seen it; I take it for granted there would be.

Q. As between the two governments there was just correspondence and negotiations?—A. To the best of my knowledge, yes.

Mr. THOMAS: Would you say that due to the fact that the United States lowered its offer to \$45 million that there would be any additional cost to the Canadian government as to the original expenses it involved in retooling and changing around of the planning? They had to undertake a larger percentage of that than they would have had to had the American government paid the full price for the guns.

The WITNESS: Yes, sir. That is the reason for the difference.

Mr. NOWLAN: You do not have the contract yourself?

The WITNESS: No, sir.

The CHAIRMAN: I understood Mr. Thomas to say that the United States had lowered their offer. I did not understand you to say that they lowered their offer. Do you know that as a fact?

The WITNESS: You might say they froze their offer to \$45 million.

By Mr. Thomas:

Q. In other words, they gave a cost plus contract originally and froze it at \$45 million?—A. A target price contract.

Q. When they did that the Canadian government was obligated to pay a higher initial cost to the contractor than they would have had to do had the American government paid the full cost price for the guns?—A. Yes.

Q. Have you any idea how much difference that might have made to the dominion government?—A. \$112,000 per gun which made the difference. The reason was, sir, I think there was a bona fide misunderstanding some place along the line where it was assumed that the production was to be wholly self-contained and that no components were to be purchased outside, and so on, and the Americans were under the impression that components were to be purchased outside; then when it came to their knowledge that in Canada a complete self-contained unit was being set up they said, "No, we cannot stand for that; \$45 million is the maximum we can go." Again, this is to a degree hearsay.

The CHAIRMAN: These are assumptions?

The WITNESS: Yes.

Mr. THOMAS: Have you any idea what the cost would have been per gun to Canada had the United States paid at the same rate? I suppose that could be worked out.

The WITNESS: Yes. It could be worked out.

Mr. BALCOM: Is the difference not largely represented by the engineers retained in Canada and the other facilities that are left to us to use if we want to?

The WITNESS: Plus, sir, an item of customs duty. Some of the materials naturally came from the United States and in the case of the United States production there would be a refund of those customs duties. As a matter of fact there was a refund of \$671,000 on the American contract. What the amount was on the Canadian I do not know. That is also an item you would have to take into consideration.

Mr. HARKNESS: The general position is that you do not have the details of the transaction really and cannot give them to us?

The WITNESS: I cannot give them to you because, as I say, I do not have the contract before me and I have not had access to the files of the United States government.

Mr. HARKNESS: Mr. Chairman, I would suggest in order to go into this it is necessary for us to get a witness from the Department of Defence Production. I think that is the procedure we should follow.

The CHAIRMAN: We can consider that suggestion after we finish with the Auditor General's report. We had a meeting of the steering committee and it was decided at that meeting we should begin by hearing the Auditor General and then after that we should go into the matter of crown corporations. After we have dealt with those matters, if it is the desire of the committee, we can call individual departments and go into individual transactions.

Mr. HARKNESS: This is one of the matters brought up in the Auditor General's report and my presumption was—and I would think that it would be general—that we would be able to get all the information in connection with the particular transactions and we are not able to get it from Mr. Sellar; therefore, I would think as part of the consideration of the Auditor General's report we should call the witnesses necessary in order to get the information.

The CHAIRMAN: That is not the way we proceed in this committee. Later on when we come to examine the transactions in detail and the public accounts in detail we can go into that; but, this is not the time to go into it now on the Auditor General's report. You are not suggesting we suspend Mr. Sellar's evidence now?

Mr. HARKNESS: No. I would suggest we go ahead with Mr. Sellar's evidence now. In the meantime we could have arrangements made to call necessary witnesses to clear up this particular matter, and for the time being this item would just stand.

The CHAIRMAN: I gave that undertaking before, Mr. Harkness, that if it was the desire of the committee, at the suggestion of any member of the committee, to assign people from the department to go into a transaction in detail that it would be done.

Mr. HARKNESS: All right.

The CHAIRMAN: Now we will go on to paragraph 37.

Mr. MITCHELL (*London*): I presume this is another case where you could not permit the Auditor General to mention the name of the contractor?

The CHAIRMAN: Well, I think the same ruling I made on paragraph 36 applies.

By Mr. Mitchell (London):

Q. May I proceed to ask if Mr. Sellar has found this to be a common practice or an isolated instance?—A. This is an isolated instance, sir. The reason it is drawn to your notice is that it is unusual for the parks branch to recognize a liability for an accident on a road until it is proven that their road is at fault.

Mr. HARKNESS: Have you any idea why they did it in this case?

The WITNESS: I have none. I know they acted on legal views.

By Mr. Mitchell (London):

Q. You say "the files do not record that any demand was ever made on the contractor to share in the cost of the accident." Was any effort made to find out if there is any reason be it legal or otherwise, that there was no proceeding instituted?—A. I wrote to the department asking that question last year, and the department advised me that the matter had been considered by the Department of Justice's agent at Edmonton they had retained for this case and it had been ruled that there was no liability claim against the contractor. I have not seen that ruling, or that opinion, from the Edmonton agent, but that is the reason the department did not press it.

The CHAIRMAN: If I understand you correctly, Mr. Sellar, the Department of Justice obtained a legal opinion that there was no responsibility on the part of the contractor and that that is the reason why the contractor was not asked to pay?

The WITNESS: Well, perhaps the easiest way would be for me to quote the reply I received from the Department of Northern Affairs and National Resources.

The CHAIRMAN: What is the date of the letter?

The WITNESS: June 9, 1955. It includes these words: "The agent for the Justice Department considered the question of responsibility by the contractor and expressed the opinion that no liability could be fastened on him. This view was concurred by the law officers of the Crown."

By Mr. Applewhaite:

Q. I have two or three questions to ask on this. It is my understanding—and members of the committee will correct me if I am wrong—that the findings of a coroner's jury has no importance whatsoever in fixing legal liabilities. Why did the Auditor General quote from the coroner's jury verdict in this connection?—A. Simply because it seemed to summarize the question whether anybody was liable at all. That was all, sir. I wanted to take it from some official document rather than to take the responsibility for saying it myself.

By Mr. Balcom:

Q. This does not establish that the coroner's jury would have any great weight in a court of law?—A. I do not think they pay any attention to it. I just put it in for a descriptive build-up.

By Mr. Applewhaite:

Q. The amount would be \$61,017 as the total amount which the department would have to pay?—A. Yes, sir.

Q. Is that included in the figure against Jasper Park on the second line?—A. It is to be found on page R-90. Pardon me; R-39 right at the foot of the page under the heading "payments of damage claims".

Q. It is shown as a charge to vote 304 which is broken down in two different ways on pages R-5 and R-6. Is that the same \$61,017 shown at the bottom of page R-30 that is also included in the summary of vote 304 as shown on pages R-5 and R-6.—A. Yes sir. It is in there but I am not sure to which of the allotments it is charged.

Q. Vote 304 is broken down in two ways, one by purposes, that is the first one, a sort of general classification, and the second time it is broken down by parks.—A. Yes.

Q. And there is an item for Jasper Park which is the only one in that description that I can see where this \$61,017 would be. I am referring to the second line from the top on page R-6.—A. Speaking from memory I think you will find that this amount is incorporated in the last item on page R-6, namely "head office, administration and information, \$239,284". I think that is where you will find it is charged but I will not say for sure.

Q. Well, counting that one, you have three different methods of showing the distribution of the \$4 million odd. If it is any one of them, it must be in all three of them.—A. That is right.

Q. I was saying that in the second case it must be in the Jasper Park item.—A. The easiest way would be for me to give you the exact information as to where it is.

Q. I will tell you why I have been working on this line: the expenditures under vote 304 are divided in one instance as between the head office and various parks. The title of the heading is "administration, operation, and maintenance". I do not know in what way the department sets up its accounts for the different parks. What I was getting at was that if this \$61,017 is shown as included in the administration and operation of parks, it would make the overhead cost of administration of the parks look higher than it should in view of the amount of work which is done. I wondered whether or not it should not be entirely isolated as a damage claim rather than as a charge against any one.—A. Again, I think it would be helpful to you if I got the figures identifying it in all of these divisions.

Q. Thank you.

By Mr. Regier:

Q. Was the payment made by the department prior to their being advised that they would not be able to have a claim on the contractor, or was it made after?—A. Oh, it was after. The payment was made on the last day of the financial year, March 31st, 1955. That is the date of the Treasury Board minute.

Q. In that case, was a reason given by the department for assuming any responsibility whatsoever? According to the statement from the law officer the opinion was that evidence was not available to establish whether the cause was the negligence of the bus driver or the faulty road conditions? Does the department automatically assume responsibility for 50 per cent of all accidents that happen on the highways that are in the parks?—A. Mr. Chairman, I do not know what the law officers had in mind, but I do know this: the law officers took notice of the fact that it was going to be very difficult to establish who was at fault, and that it might cost considerable money. Secondly, the case had been dragging out for a long time, and finally having satisfied themselves that there was no claim against the contractor, the deputy minister ended up by saying that the settlement proposed by the Canadian National Railways should be accepted. That was the recommendation.

The department in turn acted on that advice of the law officer and made a submission to the Treasury Board for the authorization to pay, and on the 31st day of March last year the Treasury Board authorized payment as a charge to vote 304.

Q. I have sometimes heard of a government being responsible for icy conditions of sidewalks but I do not recall any provincial government ever being held liable for the condition of highways and for accidents resulting therefrom. I wonder! Does the Auditor General think it is a fairly common assumption that whoever owns a highway can be held responsible?—A. I have no opinion about the law. I am bringing it up because it is the only case I have known. That is why it is before you. It is an unusual case.

By Mr. Mitchell (London) :

Q. Is it common practice in the various departments to accept the advice of the justice department rather than to have the merits tested before the courts?—A. On a question of law the department of justice act provides that the department should take the advice of the law officers. Not being an officer of the executive government I am free to express a little doubt sometimes. Therefore I am not bound by the justice opinion.

Q. You have found that departments in many cases accept the advice of the law officer rather than proceed to have the matter tested in court?—A. Oh, yes.

The CHAIRMAN: I think it is the normal procedure to follow the advice of the law officer.

The WITNESS: You usually do not get into trouble if you follow the advice of your lawyer. That is the general rule or maxim.

Mr. BOISVERT: Thank you.

By Mr. Argue:

Q. Are the law officers those of the department of transport?—A. No, the department of justice.

Q. You say:

The law officers being of opinion that evidence was not available to establish whether the cause of the accident was negligence of the bus driver or a faulty road condition, payment was made as a charge to vote 304.

If there was any doubt, why then did they pay it under vote 304?—A. They recommended settlement.

The CHAIRMAN: I think they were in doubt as to the division of responsibility. They were not in doubt as to the responsibility existing; it was as to the division of that responsibility between the Canadian National Railways and the Crown, I think. That is why they decided to settle it on a fifty-fifty basis, probably.

By Mr. Regier:

Q. Does Mr. Sellar regard vote 304 as including authority for the payment of a claim of this sort?—A. Yes sir. It is the general vote.

The CHAIRMAN: Now, paragraph 38 of the Auditor General's report.

By Mr. Harkness:

Q. Where does this particular contract appear in the public accounts? I have looked at pages W-39, W-40, and W-41, but I cannot see it.—A. You will find it on page W-85; that is my note.

The CHAIRMAN: You say page W-85?

The WITNESS: Yes sir. If you will look under the heading of "Fort Qu'Appelle" Saskatchewan, about half way down the page.

By Mr. Harkness:

Q. That is the item of \$2,588?—A. No, the next one. Notice the note also a little further down under Regina, where you will see a similar note.

By Mr. Argue:

Q. The crown lost \$21,438 in your opinion unnecessarily, or \$37,000, which is it?—A. I have that feeling here. There were three contracts, we took a loss on one, and there was a surplus on the other two. We should have taken the three accounts together and made a settlement after that. But the department felt—and I do not say they were wrong; I am just expressing my own opinion—that each contract stood on its own feet.

Q. Is that a normal attitude for them to take?—A. Oh yes, there is no exception in the practice but this was the first time I had noticed it, and as pointed out, I am referring to it because there was considerable discussion in the house of commons at the time over this, and I thought that the members might like to know that the matter was all settled.

By Mr. Thomas:

Q. Your opinion is that they should have taken the \$21,000 odd off the surplus and made a distribution?—A. Yes, that was my idea, but I do not say that I am right.

By Mr. Argue:

Q. Have you any idea as to the claims of the sub-contractors and what proportion \$37,000 was?—A. Oh, they were licked. In one case there were \$86,000 of claims for which they got nothing.

By Mr. Harkness:

Q. This was the actual clean-up of these Lunam contracts which we discussed at considerable length in the house?—A. Yes.

Q. And eventually the sub-contractors got partial payment in the amount of \$37,163?

Mr. MITCHELL (*London*): It amounted to a cost-ratio payment?

The WITNESS: You might say yes, and I might say no. But I think the department would say no, that it was part of the deal.

Mr. HARKNESS: The department felt that it had the responsibility to pay those sub-contractors?

The WITNESS: As related to each contract.

Mr. CAMERON (*High Park*): On this project the contractors with other workmen on the job would get less money.

The WITNESS: I suppose they got nothing.

By Mr. Harkness:

Q. The department did not accept general responsibility for those sub-contracts?—A. No, they did not.

Q. But in this particular case they accepted partial responsibility?—A. They had a residue left over, and they distributed it to the sub-contractors and suppliers in connection with that particular contract; but in another contract where there was no surplus, there was, as I say, \$86,000 of debts, and those people got nothing.

The CHAIRMAN: If the government had not absorbed the \$21,000 the sub-contractors would have gotten less than they did get?

The WITNESS: That is right.

By Mr. Harkness;

Q. What authority exists for treating contracts in this way?—A. It is in the contract and it is also, I think, in the wages liability act. I think it is to be found in both places.

Q. The point in this case was that the department of public works cancelled the contract with Lunam, did it not?—A. Yes.

Q. And it took over the work itself?—A. Lunam had an accident and was unable to direct his construction projects. He notified the department of that accident, coupled with the fact that he was having trouble furnishing the financing for the contracts and asked to be relieved. Whether you could say that he asked as a request, or whether it was a department decision, that is something you would have to settle with the department; but we took over the contracts and everything else.

The CHAIRMAN: And there was a clause in the contract providing for it?

The WITNESS: Yes sir.

By Mr. Harkness:

Q. I wonder whether this money was properly paid over, or whether it should have been voted.—A. No. That did not worry me. The only point that worried me was when we had three claims against one contractor, whether we should not have consolidated them, and satisfied ourselves first.

Mr. MONTIETH: The sub-contractors got something out of it in addition to what they otherwise would have got?

Mr. HARKNESS: Certain contractors got preferential treatment as compared to others.

The WITNESS: No, the sub-contractors on each project were treated alike in two cases. They shared proportionately in the surplus; but in the third case there being no surplus they got nothing; but they were not the same people.

By the Chairman:

Q. Each contract was settled upon its own merits as an individual case. I think that in law that was probably a good decision.

The WITNESS: I am not arguing it from the point of view of law. I bring it to your notice as an unusual situation, that is all.

The CHAIRMAN: Thank you.

Mr. REGIER: There was a pooling of two.

The WITNESS: No. Each one was treated separately.

Mr. REGIER: This \$37,000 is the sum of two separate items?

The WITNESS: Yes sir.

The CHAIRMAN: Now paragraph 39.

By Mr. Nowlan:

Q. On what page are the details of this item to be found?—A. W-29, I think.

Q. You say that parliament gave approval in 1949 and that there was an item in the estimates?—A. Yes, to buy the site and to proceed.

Q. What was the amount of that item? Have you the particulars?—A. I have not got the figure before me but my recollection is that it would be possibly, \$25,000 or \$50,000.

Q. For the site?—A. Yes; it was the usual starting item.

Q. In the last line you say "compensating of the contractor for the delay"; just what do you mean by that?—A. The contractor moved on to the site and brought his equipment on to the site; he started work, and then they stopped him.

Q. Was this contract a cost-plus one?—A. No, it was a bid price, and he was the lowest bidder. They stopped his work because the city of Granby said "you are violating the by-laws of Granby by building too close to the street line".

By Mr. Harkness:

Q. You say that the plans and specifications had been completed by a private architect. Was that private architect hired by the contractor or by the government?—A. By the government.

Q. Who was at fault in this matter? I presume the architect hired by the government was at fault, but were any other engineers at fault in locating the building in that exact spot?—A. That is getting outside of my responsibility. You might say that the architect, who had been engaged for it had the responsibility and you might also say that the resident architect in that area had a responsibility. Anyway the department of public works, when this developed, was very annoyed, naturally, and they issued pretty stiff instructions

to all their field officers and to any architects that they engage that they must satisfy themselves as to the municipal by-laws and everything else which might be applicable to the construction.

By Mr. Applewhaite:

Q. Didn't they, in the first place, get a permit from the city, and then have it revoked later on?—A. They got the permit but they did not examine the by-law first.

The CHAIRMAN: You might say that the city was also at fault because they granted a permit which was against their own by-law and then repealed it.

The WITNESS: Yes.

Mr. APPLEWHAITE: Following that, I think this is a fair question. When one applies for a local permit, is it the duty of the applicant, having got that permit, to make certain that the issuer of it has not violated its own by-laws?

The CHAIRMAN: I wonder if that is a fair question to ask Mr. Sellar. He is not here to give legal opinions.

The WITNESS: I think I could answer it. We expect architects to satisfy themselves on such matters.

Mr. APPLEWHAITE: You expect them to go behind municipal permits?

The WITNESS: Possibly not, but they should see that everything is in order.

The CHAIRMAN: Paragraph 40.

Mr. BALCOM: Would it not be the duty of the treasury board to see that the land in this case was clear and that they had sufficient property rights?

The CHAIRMAN: Are you dealing with paragraph 39 now?

Mr. BALCOM: No. Paragraph 40. The treasury board granted the money before the land was clear.

The WITNESS: Mr. Chairman, the situation is this; it is a little unusual. This land was originally British Admiralty land at the entrance to the harbour of St. John's, Newfoundland, and during the war the government of Canada had the use of that land. We had some installations on that particular land and as a matter of fact paid a couple of people for the use of the land. Then after the war, the department decided they wanted to construct certain works in this area and among other things there was the matter of a breakwater. The Department of National Defence asked the Department of Public Works to handle it and everyone proceeded on the assumption that it was going to be a very easy matter to get hold of this land. However, it was then found that the people on the land were squatters and had been there a great many years and the British Admiralty had transferred all its rights prior to 1921 to the Newfoundland government. In turn, the Newfoundland government had transferred certain of its rights to the city of St. John's. Then, to make the thing more complicated, legislation was adopted a few years ago permitting those people holding, what I think they call building leases, to acquire title to the land. That was the situation. Everybody thought it was a simple transaction and we were going to deal with certain people, but when we dealt with them we found they could not give us title. It was most unusual. The project for the time being was dropped. I thought I should bring this to your notice.

Mr. NOWLAN: Did they find it out in 1952?

The WITNESS: No, the following year.

Mr. BALCOM: We still have some equity there?

The WITNESS: They got some of the land since but not all and because they did not have it all they did not proceed with the construction.

By Mr. Nowlan:

Q. They have not proceeded?—A. No. The contractor has been paid off.

Q. When did the contractor move on to the property?—A. I am sorry I do not have the date; but it was almost a year after the first awarding of the contract:

Q. That would be in 1953 sometime?—A. Yes, sometime in 1953.

Q. How long before the election?

The CHAIRMAN: Mr. Sellar said he did not have the date.

By Mr. Nowlan:

Q. You said this was an unusual item. I wonder if it applied just before the election?—A. I am not a politician, but I know this contractor was not a local contractor.

Q. Can you find out when he did move on?—A. Yes.

Mr. THOMAS: The cost to the federal government has been this \$83,000 plus \$140,000, about \$223,000.

The CHAIRMAN: The total was \$140,000. Is that not right, Mr. Sellar?

The WITNESS: Yes.

Mr. CAMERON: (*High Park*): We still have some value from that \$140,000?

The WITNESS: Yes. A very substantial part of that is land.

Mr. CAMERON: (*High Park*): So the loss is much less?

Mr. NOWLAN: You say that \$83,000 had been paid under the contract. You mean paid to the contractor for services performed?

The WITNESS: Yes, and for materials and supplies moved on. There was certain pontoon work, or something of that nature, carried out but it never was used.

The CHAIRMAN: That \$83,000 is included in the \$140,323 mentioned before.

The WITNESS: Yes.

Mr. MITCHELL (*London*): The ultimate value of the land would be, at its maximum, something in the nature of \$50,000 or \$60,000.

The WITNESS: Yes, sir.

Mr. REGIER: Did any of the \$83,000 represent payment for termination of the contract?

The WITNESS: I do not think so. My recollection is "no", but I would have to check it.

Mr. NOWLAN: The work must have been progressing for quite a little while to go to \$83,000?

The WITNESS: I will not try to answer that. I do not have the knowledge. I have made a couple of biffs before and I am not going to add to them.

Mr. HARKNESS: The general position is that there is a loss of between \$83,000 and \$140,000 due to inefficiency on the part of somebody?

The WITNESS: Yes, or on the other hand when that work goes on some of that work performed may be able to be used subsequently.

Mr. MONTEITH: Were they still trying to get these titles straightened away in order to continue purchasing the property until the end of last year?

The WITNESS: Yes. What the situation is today I do not know.

Mr. HENDERSON: You cannot say that this \$83,000 is a dead loss?

The WITNESS: I am not prepared to say that, no.

The CHAIRMAN: Paragraph 41.

By Mr. Harkness:

Q. This paragraph deals with defence force coal transactions and you say here "reports indicated that quite a number of deliveries were challengeable". Are they challengeable solely from the viewpoint of quality of coal delivered, or also challengeable from the point of view of amounts?—A. Quality, sir, mainly moisture content; moisture and sulphur content.

Q. Have you any estimate of the amount of loss as a result of this?—A. It is not large. It would be less than \$10,000.

Mr. THOMAS: Could we find out, Mr. Sellar, where the investigations were made, at what plants or at what bases did you carry out your investigations?

The WITNESS: We followed it up on the basis of reports that were before us, plus some observations when we were at bases; but it was mainly based on the written reports which came in. The testing is done by mines Branch people here in Ottawa.

By Mr. Harkness:

Q. Did you conduct any investigation as to how it was affecting the quantities delivered, as to whether there was any discrepancy there?—A. That is part of the stores routine audit. That is taken in its stride. Of course that does happen sometimes.

Q. There was some question in the estimates in connection with this particular method of delivery of coal I think last year.—A. It is not infrequently, I am sorry to say, that there are lawsuits and criminal proceedings on coal deliveries, not only for national defence; it is what goes into the bins and what is diverted before it hits the bins. But, I do not think the service forces have any more serious problem than any other big user of coal.

Mr. BALCOM: Would it not be more frequent in isolated places and it couldn't take place in the city where they have registered weighers?

The WITNESS: I am sorry to say it has happened in cities. Collusion can be an awful thing.

By the Chairman:

Q. This paragraph of itself does not deal with shortages in deliveries?—A. No, sir.

Q. And you draw the attention of the committee to the fact that the matter was drawn to the notice of the department and a review of the regulations and practices applied in taking samples was at once undertaken.—A. Yes, sir.

Q. In order to correct the situation. That is mentioned in that paragraph.—A. Yes. What the department has done is this: It has tried to make its regulations, and application of its regulations, to take such form that if it is established as a result of the test that the coal has not been up to standard that they have an enforceable claim against the contractor. One of the big weaknesses was that the contracts provided that the contractor or his representative shall be present when the samples are taken and in some places that was not done. The contractor had a grievance that he did not see those samples taken and did not know whether they were fairly taken. Another was that they would ship in coal samples possibly in barrels or something like that and it would be dumped. The complaint was that there was too much moisture in it but it was sometimes dumped on a cement floor where there was some heat and the moisture would drain off. There is no crookedness there. This is just a tightening up of practical procedures.

The CHAIRMAN: Thank you.

Paragraph 42.

Mr. BALCOM: Mr. Chairman, could I suggest that the procedure which has been taken in here is just a carry-over from that during the war when the commonwealth air forces were training?

The WITNESS: Yes. The sole trouble here is that one government used a fluorescent test system while we used the standard chest X-ray film. The result was some of these people passed their tests and when we put them through our usual X-ray test they fell down. The government concerned adopted our machine last fall and that has ended.

By Mr. Harkness:

Q. Whose responsibility is it to test these people, the Canadian military services or their own country?—A. It arises out of NATO. The tests are made by the government which has the airmen. I felt, from the viewpoint of the taxpayer of Canada the Canadian government should test these fellows as soon as they arrive and if they had anything wrong with them the cost should be borne by the other government. That may not be good diplomacy, but I was thinking in terms of the taxpayer. The sensible view is to improve the system of examination and that has been done.

The CHAIRMAN: Paragraph 43.

By Mr. Monteith:

Q. You say this is charged against national defence. On what page do the details of this item appear?—A. They are spread throughout the items. I do not think that they are identified by any particular item.

Q. You say they are charged up against different items in the Department of National Defence?—A. Yes.

Q. You say that \$290,000 may be recovered. From what source would that be recovered?—A. From the countries involved in southeast Asia; and, I use the word "may" deliberately.

Q. There is no agreement with those countries?—A. There is an agreement, but can you enforce it?

Q. There is an agreement?—A. I take it for granted that when you put in a truce team that the government concerned undertakes to pay for it. Whether they put it in writing or not I do not know.

Q. How do you arrive at a figure of \$290,000 as the portion of the expenses which may be recoverable?—A. Those relate to the personnel attached to the international secretariat and are mainly for travel.

Mr. BALCOM: Mr. Chairman, did this \$290,000 occur in other years? There was no backlog in that?

The WITNESS: It would only be one year, because we only came into the picture about two years ago.

Mr. BALCOM: That would be repeated probably this year?

The WITNESS: It is going on.

Mr. NOWLAN: Is there any agreement with the government of France in respect to this?

The WITNESS: I do not think so.

By Mr. Harkness:

Q. These amounts, \$290,000 for the Department of National Defence and \$91,000 for the Department of External Affairs, are shown as collectable items in their accounts?—A. They are credited as collectable items, yes, but you would have to ask external affairs what is the precise situation today.

Q. We have the situation then that the money is repayable and the departmental accounts show credits of this amount?—A. Yes. It is one of those payments we make as a nation of the world in trying to promote peace. Whether we get the money back or not is a question.

The CHAIRMAN: Paragraph 44.

By Mr. Monteith:

Q. I wonder if Mr. Sellar could tell us if there are any other Maple Leaf services which are not subject to parliamentary audit?—A. Oh, yes.

Q. Are they not under the National Defence Act?—A. Under the National Defence Act and what they call non-government property, army messes, canteens and so on.

Q. How are the books of the Maple Leaf services audited? Can you tell us that?—A. I do not have the slightest idea. The act says that the Financial Administration Act shall not apply to that type of account and that the Minister of National Defence shall decide how and in what form audits shall be performed.

By Mr. Harkness:

Q. The point you are making here is that this \$50,000 should be charged to the Maple Leaf Services Corporation?—A. Yes.

Q. And that money should be paid by them to the Department of National Defence to pay for the services of these officers?—A. Yes, sir. The last conversation I had on the subject was last December when the plan still was to repay that amount to the government of Canada.

Q. Why haven't they repaid it?—A. They were starting out; until they had sales and got going they did not have the money.

Q. They were waiting until they had enough profit to pay this?—A. We are providing working capital at the outset in a small way.

The CHAIRMAN: So, do you think the complete expenses in this amount will be reimbursed eventually?

The WITNESS: I am hopeful, sir.

The CHAIRMAN: Paragraph 45.

By Mr. Harkness:

Q. Your position, I take it, is that an amendment to the Northwest Territories Act is necessary in order to correct an anomalous situation?—A. I would say it is desirable to protect the position of the four members of the council who were elected by the people at large. As it is now they are in a minority to the five appointed members and I think it is in the public interest that the four men should be protected. Remember, they are not being abused now, but they should be protected. At some time when the act is open suitable provisions should be inserted.

The CHAIRMAN: That they get a minimum?

The WITNESS: These gentlemen are not necessarily well-to-do men. I think one is a trapper and to travel all the way from the North Pole down to Ottawa for a meeting is an expensive proposition for the man and he should have an advance. Our act does not say so. They are doing it under the territorial fund, which is all right, and I am not complaining about that, but if the territorial people—and I am speaking now of the government representatives—wanted to become dictatorial they could say we will not apply this regulation and not give any advance.

Mr. HARKNESS: Or if there was somebody they did not want present at the meeting they just would not give him an advance.

The WITNESS: It is a hypothetical situation, but I thought they should be protected.

The CHAIRMAN: Paragraph 46.

By Mr. Argue:

Q. I am interested in paragraph 46. Could you give the committee some idea of the amount of overpayment in family allowances and the amount in old age security pensions? Is the payment much greater one to the other?—

A. Well, sir, our tests were basically a comparison of the manifests of shipping companies having sailings out of Montreal and the maritimes to Europe. Therefore, it was the old age security people that, in the main, we would get. We found that quite a number of people reflected in the manifests as being over 70 years of age had not given notice to discontinue their old age security. They had relatively few children with them and therefore it is an unfair comparison, also you have to bear in mind in those cases that a substantial number of people who would be sailing to Europe for a considerable period intending to return to Canada might not be of Canadian origin. The chances are either they, or their parents, came from Europe. It is quite natural that those people would be scared that if they ever gave any notice they were going abroad that their old age security would be discontinued and never renewed. There would be that latent fear in the back of the minds of a great many people. Therefore the test we made was not of course fair in an over-all sense.

Q. What is the amount of money that might be involved?—A. It all depends whether it is by month or year. It was not bad. About \$30,000 was what we discovered, taking it collectively. The big thing is, if there is a leak, it is not in that sort of traffic but in the traffic to the south by automobile, aeroplane and train, where there is no possible way of identifying a person by age. On a ship manifest they have to put down ages but going south there is no obligation to give age.

Q. But surely the overpayment of family allowances has practically nothing to do with the parents leaving the country?—A. Oh, yes. When people go down south in the winter.

Q. I know, but I have figures of overpayments as they are distributed in various parts of Canada and it seems to me quite evident from looking at that picture that the proportion of the overpayment that would result from that field is a very small part of the overpayment that has in fact been made?—A. I would agree with you there.

Q. So that your whole reference in paragraph 46 to overpayment of family allowances, headed up by this first sentence, cannot be tied to that first sentence at all. It is something else?—A. I didn't intend to read as much into it as you have.

The CHAIRMAN: There is one point. You mentioned \$30,000, and before that you said that the figure would depend on whether we wanted the monthly or the annual figure. Which is that figure of \$30,000?

The WITNESS: The annual figure.

By Mr. Harkness:

Q. That is as a result of people going abroad solely?—A. Yes.

Q. What is the total amount of overpayments for both of these?—A. Well, the total amount of overpayments as reported by the Department of National Health and Welfare, I think, on the old age security is in the nature of \$22,000 in that year, and on family allowances in the neighbourhood of \$65,000.

Mr. NOWLAN: What is the nature of the overpayment of family allowances? Is it children being paid past the age of 15?

The WITNESS: Children not going to school, children not being supported by parents and so on. The department has a very good record in that respect, and I do not regard this \$65,000 as being unreasonable.

By Mr. Argue:

Q. What progress, in fact, is the department making to reduce the overpayment of family allowances? I notice in the annual report they say there has been a net reduction of approximately \$30,000 in the amount outstanding, but I also noticed \$25,000 of that was a write-off by order in council and that only \$5,000 was a net reduction.—A. If you were wanting specific information on this subject you would have to call someone from the department, but my belief is that the policing—if that is an appropriate word to use—should be by trying to educate the public not to abuse the act and when a situation develops to notify that the person is no longer eligible. It is a very difficult act to administer.

The CHAIRMAN: In view of the large amounts paid out the overpayments are really small?

The WITNESS: They are not a sensational item at all.

By Mr. Nowlan:

Q. What is meant when it says the child is absent from the province? Is it when the parents go outside the province on a vacation and that child is disqualified?—A. Outside the country. If they go out it is suspended and if they return in a certain period it is revived. It quite often arises through grandparents taking a mother and grandchild down south for the winter. That is quite often how it arises.

Q. If they are absent more than 30 days?—A. Yes, the act provides for suspension.

Q. I had a letter from a very irate person who was away for five weeks and was served with a notice that he was absent from the province. It seems to me that absence from a province on a vacation hardly comes under that.—A. There is a regulation.

The CHAIRMAN: Paragraph 47.

By Mr. Harkness:

Q. There are a certain number employed by the Department of National Defence who would not come under the Civil Service Act. In these payments of \$350,000, how many persons are involved?—A. I do not have the number. I have only the employers. I do not have the number of employees. It would vary of course. Some would be for short periods and some have a whole year, and in some cases they have several years. I do not have the number.

Q. You have this one particular case?—A. Yes.

Q. Where the person has been employed for some years, at a rate of \$400 salary, and \$200 a month living expenses?—A. Yes.

Q. What would be the cost of a comparable civil servant? What I was trying to get at was whether this is costing the country more money than it should?—A. In my opinion it is; but, if you were to put that question to the department, the department might reply that it would gladly take a civil servant with the necessary qualifications if they could get one; but they can't, and therefore have to get a man as best they can. In this case they wanted a specialist in connection with shipping construction, they went to a shipping construction company and asked them for a man. That I think would be their reply.

Q. As far as my specific question is concerned, what would be the cost if this man were a civil servant?—A. It would be less.

Q. It would be considerably less, would it not?—A. I cannot tell you how the Civil Service Commission would grade the job.

The CHAIRMAN: Paragraph 48.

By Mr. Applewhaite:

Q. On paragraphs 48 and 49, taking them together, I have read those two paragraphs two or three times and they worry me a bit. One deals with service forces and the other with sick mariners. The last sentence in paragraph 48 is:

The existence of statutory authority is not questioned, but the reason for discharge being what it is, one may wonder if the statute should not include a provision that, in suitable circumstances, balances be subject to forfeit.

Towards the end of paragraph 49 the Auditor General says:

It seems appropriate and also a protection to the crews on government vessels that their care, during incapacitation, should be under the same supervision as that applicable to other mariners.

My question in both instances is, is the Auditor General there recommending a change in government policy or a change in accounting practice?—A. In paragraph 48 I am recommending a change in legislative policy. I am recommending an amendment to the act that when a fellow goes a.w.o.l. we should not run all over the country trying to find him to hand him any little balance which may be owing to him. That is the substance of 48.

On 49, the act says—and I am now talking about the Canada Shipping Act—that every boat entering and leaving ports in Canada shall periodically pay sick mariner dues, but the act exempts from that levy shipping of the government of Canada. For many years the government of Canada paid shipping dues and we have had the benefit of the act. Actually the hospitalization costs always exceed our payment of dues, and the Department of National Health and Welfare were naturally complaining that the other departments should have borne more of the cost; but the whole question has arisen whether or not the government should officially come within that provision. It was decided they would inquire into it. But, pending a decision, the departments would continue to get the benefits without paying any dues at all. Everything is as broad as it is long, but in this case the commercial shipper could be regarded as being a little discriminated against because somebody might pick up the figure and say that the sick mariners' fund is losing money and that rates should be increased. I submit it might be government shipping which in part is responsible for that. Actually it is the smaller vessels that are responsible for the real losses. My feeling is that, again it is a small thing, when you make an arrangement of this nature parliament should be asked to agree—just to keep it within parliamentary control.

Q. Would that be a vote, or removal or exclusion of government vessels from the Canada Shipping Act?—A. There is a matter of law, whether the government vessels should be excluded. I do not want to go into policy. I would say by a vote.

Q. As far as this is concerned, what would you put in the vote, an assessment of what it would be or an estimate of the cost of caring for government employees?—A. I would put it in as a vote. Last year the total was roughly \$77,000, of which \$50,000 was in connection with the Department of Transport. I would put in a little separate vote covering the whole thing.

Q. Is this a fair question, that the type of work done by government vessels, buoy tenders, light-house tenders, and so on would produce a higher rate of injury than in normal shipping?—A. On the record of last year, yes.

The CHAIRMAN: Are there any other questions on paragraph 49?

By Mr. Harkness:

Q. On paragraph 48 I take it that the present situation is that a deserter who deserts and never comes back is better off than a fellow who is a.w.o.l. and comes back and takes his punishment, because a man who does come back is given a sentence of so many days' loss of pay and so many days in the guardhouse and so forth, whereas the fellow who never comes back gets paid for what he has done?—A. He doesn't get paid for it all, but he will have little credits.

Q. I say that the bad person who is a deserter is better off than the fellow who comes back and takes his punishment.—A. I will give you a record of a few cases. There were six cheques totalling \$325 cashed with three forged endorsements; three cheques were returned by post office as undelivered; four outstanding. Of these thirteen cheques we know that only three reached the person. The rest never reached them. Some fellow just pulled them out of the rooming house slot and cashed them. The service people agreed with us that this was a silly arrangement and cut it off. On the other hand, the type of fellow involved is no good and they don't want him anyway. They are happy to be rid of him. I just want to get it tidied up.

Q. I was thinking of service discipline in the forces and the present punitive measures as far as a.w.o.l. people are concerned. It would appear, as I said before, that the fellow who deserts and never comes back is better off than the fellow who does.—A. It is small stuff that he gets. The department is sympathetic to our view, but it is not a thing in which you need rush legislation.

By Mr. Cameron (High Park):

Q. Is he credited with his pay while absent, or is it the balance when he leaves which he can claim for? Is it the balance owed to him at the date he deserts he can claim or a larger balance by adding on pay after he deserted?—A. It is his credits which he hadn't received, credits and superannuation account.

Q. So he is not being treated better than the man who returns?—A. No.

Q. What about the forged cheques? Does the government assume responsibility or the banks?—A. Almost invariably we hold the bank responsible. I think it is unfair.

Q. It is in the Bank Act.—A. I know, but it is unfair sometimes.

The CHAIRMAN: Paragraph 49.

Mr. CAMERON (*High Park*): I have no other questions on 49 and I think we might adjourn.

The CHAIRMAN: I was wondering whether it would be the desire of the committee to have two meetings on Tuesday; one on Tuesday morning and one on Tuesday afternoon, so as to get on with this report?

Agreed.

We will adjourn until Tuesday morning at 11 o'clock and perhaps have a meeting on Tuesday afternoon at 3 o'clock.

HOUSE OF COMMONS

Government
Publications

Third Session—Twenty-second Parliament
1956

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: CHARLES A. CANNON, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

TUESDAY, MARCH 27, 1956

WITNESS

Mr. Watson Sellar, Auditor General of Canada

STANDING COMMITTEE

On

PUBLIC ACCOUNTS

Chairman: Charles A. Cannon, Esq.,

Vice-Chairman: A. J. P. Cameron (*High Park*), Esq.,

and Messrs.

Anderson	Hanna	Mitchell (<i>London</i>)
Applewhaite	Harkness	Mitchell (<i>Sudbury</i>)
Argue	Henderson	Monteith
Ashbourne	Hollingworth	Noseworthy
Balcer	Holowach	Nowlan
Balcom	Houck	Pommer
Beaudry	Kickham	Poulin
Boisvert	Kirk (<i>Antigonish-</i>	Power (<i>St. John's West</i>)
Breton	<i>Guysborough</i>)	Proudfoot
Bruneau	Laflamme	Regier
Cavers	Leduc (<i>Jacques-Cartier-</i>	Rowe
Cloutier	<i>Lasalle</i>)	Schneider
Denis	Maltais	Thomas
Fulton	McGregor	Tucker
Goode	McLeod	Van Horne
Hamilton (<i>Notre-Dame-</i>	McWilliam	Weaver
<i>de-Grâce</i>)	Menard	Zaplitny

Antonio Plouffe,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, March 27, 1956.

(5)

The standing Committee on Public Accounts met this day at eleven o'clock. Mr. Charles A. Cannon, chairman, presided.

Members present: Messrs. Anderson, Applewhaite, Balcom, Boisvert, Breton, Cameron (*High Park*), Cavers, Hanna, Harkness, Henderson, Holowach, Kickham, Laflamme, Leduc (*Jacques-Cartier-Lasalle*), McGregor, McWilliam, Menard, Monteith, Pommer, Thomas and Zaplitny. (22)

In attendance: Mr. Watson Sellar, Auditor General of Canada.

On a question of privilege, the Chairman read a statement in respect of a Canadian Press Report of March 22 last, referring to procedure in Committee (*cf. this day's evidence*).

Mr. Watson Sellar was called and further examined.

He gave answers not readily available at the last meeting.

At 12.55 o'clock, Mr. Sellar's examination still continuing, the Committee adjourned until 4 o'clock this day.

AFTERNOON MEETING

(6)

The Standing Committee on Public Accounts resumed at four o'clock this day. The Chairman, Mr. Charles A. Cannon, presided.

Members present: Messrs. Anderson, Ashbourne, Boisvert, Cameron (*High Park*), Cavers, Hanna, Harkness, Henderson, Hollingworth, Holowach, Houck, Kickham, Laflamme, McWilliam, Menard, Monteith, Pommer, Regier, Thomas and Zaplitny. (21)

In attendance: Mr. Watson Sellar, Auditor General of Canada.

Mr. Watson Sellar was called. He completed and amplified answers to questions asked at the morning sitting.

On paragraph 96

In answer to a question, the witness referred to cash and securities held by certain crown corporations. The list of such corporations was incorporated in the record. (*cf. this afternoon's evidence*).

The Committee concluded its study of the Auditor General's Report as contained in the Public Accounts (1955).

The Chairman expressed the Committee's appreciation to the witness and he was retired.

At 5.20 p.m. the Committee adjourned to the call of the Chair.

Antonio Plouffe

Assistant Chief Clerk of Committees.

ERRATUM

Delete the following words "*Including First Report to the House*" which appear on the cover page of No. 3 Minutes of Proceedings and evidence.

The First Report is printed in No. 1.

EVIDENCE

MARCH 27, 1956

The CHAIRMAN: I see a quorum, gentlemen, and I suggest we start.

I have a statement to make.

In a Canadian Press dispatch dated March 22, 1956, from Ottawa, it is stated that committee chairman Charles A. Cannon ordered Auditor General Watson Sellar not to disclose the name of the Canadian contractor for 62 millions worth of naval guns. Further on in the report it is said that Mr. Cannon maintained that giving the contractor's name would serve no useful purpose.

The typewritten stenographic report of the proceedings of the Public Accounts Committee on March 22, 1956, shows at page 6 that that I made the following ruling:

The CHAIRMAN: It is just a matter of procedure. I am of the opinion that this is not the time to mention the name of the contractor when we are dealing with the Auditor General's report in a general way. Later on, if the committee wants to assign somebody from the department, or through some official of the department get the name of the contractor, if it is the opinion of the committee we should hear the contractor, then we could hear him at that time. He would be here and would be able to answer any questions. I rule, as a matter of procedure, that this is not the time to mention the name of the contractor now.

I also said at page 10:

I rule that Mr. Sellar is not to answer that question at this time. It will serve no useful purpose and it is a matter for the department. If you want to assign the minister or any employee from the department at a later date that will be your privilege; but, at this time I rule Mr. Sellar is not to answer the question.

This report shows that I did not simply order Mr. Sellar not to disclose the name. I ruled that as a matter of procedure it was not the time to mention the name of the contractor while the committee was dealing with the Auditor General's report in a general way.

Also if my statement that it would serve no useful purpose to divulge the name is not taken out of its context, it is clear that I ruled that it would serve no useful purpose "at this time".

At page 24 of the typewritten report I said, still dealing with the name of the contractor,

That is not the way to proceed in this committee. Later on when we come to examine the transactions in detail and the public accounts in detail we can go into that; but, this is not the time to go into it now on the Auditor General's report.

As can be seen the Canadian Press report is incomplete and indicates that I gave an absolute order that the name was not to be divulged by the Auditor General and that I ruled in an unqualified manner that no useful purpose would be gained by giving the name to the committee, while in reality I ruled as a matter of procedure that the name should not be given to the committee at this time, and I also ruled that no useful purpose would be served at this time by giving the name to the committee.

I would be obliged if the Canadian Press and the newspapers who used the Canadian Press report would complete for the benefit of their readers the report of the proceedings of the Public Accounts Committee on March 22nd last.

I may say at this time that the reason for these rulings is not that the Department of Defence Production objects to giving the name of the contractor. They have no objection at all. The reason is that the Auditor General's report is always impersonal; he mentions no names and it has always been the rule that when the Auditor General is giving evidence on his report, he should follow the same rule and not mention the names of contractors or persons affected by the report.

This committee is one of the most important committees of the house and I am sure that we can count on the cooperation of the press so that their reports will be as accurate and complete as possible.

Mr. Watson Sellar, Auditor General of Canada, called.

The CHAIRMAN: Mr. Sellar, have you anything to add to the evidence that you gave the other day?

The WITNESS: Yes sir. I was asked a few questions and here is the information with regard to them: on paragraph 36 with which you have been dealing, I was asked what was the size of the guns. They are three-inch 50 calibre guns.

Mr. HARKNESS: Three-inch?

The WITNESS: Yes, three-inch, 50 calibre. On paragraph 37 I was asked where the \$61,017 charged on pages R-5 and R-6 of the public accounts could be found. On page R-5 the first statement is the primary distribution of the vote. The \$61,000 is included under "Sundries," the last item under that tabulation, and in the second statement which follows immediately below the amount is shown as charged to Jasper Park, the second item on page six. Finally it is also shown in the short statement below under the heading "Alberta".

On paragraph 40 which deals with a contract for works in Newfoundland I was asked when the contract was awarded. It was awarded on August 21, 1952. I was also asked when the work started. I am not sure of the exact date but it was about October 1, 1952. It was stopped in December of 1952 and the contract formally terminated on September 15, 1954. It is before you in the present accounts because the final payment of \$8,900 was made in 1954-55.

By the Chairman:

Q. In other words, the contract would be begun and ended in 1952?—A. Yes sir.

Q. That is—to answer one of the questions you were asked the other day—well before the election?—A. Yes, the election was in 1953.

The CHAIRMAN: Now we will go on to paragraph 50 of Mr. Sellar's report. Are there any questions on paragraph 50?

By Mr. Harkness:

Q. Yes. The only thing that occurs to me with regard to this paragraph is that the process referred to in the last sentence could go on for years. It says nothing will be taken from this guarantee fund to cover defalcations "until there is no reasonable probability of making any collection on them within a reasonable period of time." That "reasonable period" might be years.

—A. That could happen, sir, and that is why we are noting it. We think it is desirable that any cases should be drawn to the attention of the House of Commons within a short time because the act says the Department of Finance is to make an annual report of all defalcations. There are, however, two sides to everything, and I have sometime appeared to argue against myself so that you gentlemen are fully informed. The post office might have a prosecution in progress in connection with a defalcation during the year—a case on which no final decision has been reached. A man is not considered guilty until he is proved guilty, so, until the final word, the matter has to stay in suspense. But where defalcation is established, I say it should be reported promptly.

Mr. CAVERS: What limitation would you suggest for the period?

The WITNESS: A reasonable time for dealing with this would be, possibly, within 12 months. However, there might be exceptional cases where it is not possible to establish who was responsible

By Mr. Monteith:

Q. I suppose, Mr. Sellar, that payments are made out of this public officers' guarantee account to cover defalcations and other fraudulent acts, and that there is also a guarantee fund in the Post Office Department for the same purpose. Could you tell the committee exactly how that is set up? Are these defalcations repaid out of these two funds, and how do the funds get their money?—A. The post office fund was established a great many years ago by levies on post office employees as provided in the act. I think you will find it was set up in the days of Sir William Mulock—that is how far back it goes. In time enough money was on hand for the fund to carry itself so they discontinued the levy. The fund today stands in the region of \$408,000, and that would originally be contributed by post office employees virtually none of whom are now in post office employment.

Q. Before we turn to the other fund, do I understand that this fund which has been contributed to by post office employees in the past is carrying itself at the present moment by interest and so on?—A. Yes, sir.

Q. In other words the original fund was conceived on the basis of the idea that all employees would help to build up a fund to pay for the defalcation of one employee?—A. They had no option, sir. It was an order; it was deducted from their pay.

Q. So the fund continues its existence, and it is still customary to make use of it to cover postal defalcations?—A. The hon. member should bear in mind that in the days before this fund post office men were bonded and they would have to pay premiums. Later, to get away from bonding, the fund was created and public servants being on the whole honest, the fund quickly developed a surplus.

The other account was established by parliament in the first place with working capital provided by means of a small appropriation; then, all departments which bonded officials paid the Department of Finance a certain sum for each \$100 of bonding. Thus, by charges to appropriations, that fund grew to a substantial sum and is now more than adequate to meet its needs.

The CHAIRMAN: Paragraph 51.

Mr. POMMER: I notice with regard to the agricultural prices support account that disposals of butter at less than cost resulted in a loss of \$1,506,000. That, I imagine, is due to the selling of butter to public institutions?

The WITNESS: I cannot tell you sir because it is an amalgamated account. I would have to find that out for you.

The CHAIRMAN: Paragraph 52?

By Mr. Harkness:

Q. I take it from the first part of this paragraph, as far as the Prince Edward Island agreement was concerned, that the Dominion has paid this amount of \$330,000 above what the original agreement called for, because they paid processing, carrying and selling costs whereas the agreement related to transportation costs?—A. Not necessarily sir. The Agricultural Cooperative Marketing Act provides that:

The minister may, with respect to any agreement under this act and with the approval of the governor in council, prescribe

(b) the maximum amount that may be allowed under the agreement for processing, carrying or selling costs with respect to the marketing of an agricultural product.

That is the statutory authority. Then, when the agreement was made, it included this paragraph:

For the purposes of this agreement processing, carrying and selling costs shall include transportation, storage, handling, packaging, interest and financial charges, shrinkage (which shall not exceed the maximum specified in section 6 hereto), insurance, accounting, commissions and other processing and marketing costs and all other expenditures properly included in an operating account, the total of which shall not exceed 25 cents per bushel.

It happens that the construction given to "transportation" resulted in the costs exceeding 25 cents a bushel. There were roughly 8 million bushels of potatoes marketed under this plan—actually the figure was a little higher than that—and that resulted in about \$2,089,000 being available for these costs. What happened was that it was subsequently ruled that transportation costs should not be regarded as including prepaid freight to Charlottetown, Halifax or Boston as the case might be, these being assembly points. That was treated as part of the cost of production. As a result \$330,000 over and above what the agreement provides was absorbed by the Dominion government. I am bringing it to the notice of the committee because the act says that the minister may only with the approval of the governor in council, prescribe the maximum amount that may be allowed under the agreement; but it was subsequently ruled departmentally that a narrower interpretation be given to "transportation".

Q. However, under the Agricultural Products Cooperative Marketing Act a payment of this sort was quite proper. It was just that the agreement of 25 cents a bushel made in this particular case was not sufficient to cover that?—A. That is correct sir. That is the point.

Q. So far as the other matter mentioned here is concerned—the case of the New Brunswick potato marketing board—what is the amount still involved with respect to which settlements have not been made?—A. Speaking from memory I would say a couple of hundred thousand dollars.

Q. It is not a large amount—A. No sir, but I am speaking from memory.

The CHAIRMAN: Are there any further questions?

By Mr. Zaplitny:

Q. I notice it states in paragraph 52 that a final settlement has not yet been made as treasury investigations indicate falsifications of some inspection and delivery records. Can we take it from that that the \$330,000 mentioned earlier in the paragraph is not involved in the controversy referred to in the last sentence?—A.—Yes sir. The latter part of the paragraph refers to the sum of \$2,200,000. The amount in controversy is \$216,000, that is the exact figure. It is the latter figure which is regarded as being somewhat in doubt.

Q. Would that falsification of the accounts referred to involve only part of that sum of \$216,000, or the whole of it?—A. These transactions involved claims for settlement on carloads of potatoes, presumably for the ordinary market, which may have gone into the starch factories. There was no price fixed for such deliveries under the agreement, therefore dealings with the starch factories were not recognized for the purpose of the agreement.

Q. That would mean the whole of this sum of \$216,000 would probably not be paid?—A. I know that the Department of Agriculture generally, and the Department of Finance, have been examining this matter with a great deal of care and there was some discussion of the matter in the house last week. I believe, though, that a settlement has not yet been made, nor have I any idea how close they may be to a settlement.

The CHAIRMAN: If you have finished with paragraph 52 we shall go on to paragraph 53.

By Mr. Monteith:

Q. The main point that appears here is that there has been no government direction with respect to costs that may be incurred by a crown corporation for a governmental purpose before an appropriation is granted for the purpose. In other words, this money was spent before there was an appropriation?—A. That is it, sir.

Q. Would that mean that these amounts would be charged to votes numbers 558, 103 and 584 respectively although there had actually been no appropriation in those votes?—A. The whole purchase was made out of the funds of the Canadian Commercial Corporation, and then, subsequently, votes were obtained to reimburse the corporation.

Q. The payment was made in advance?—A. Yes, sir.

By Mr. Harkness:

Q. In other words, the thing should not have been done that way, properly speaking?—A. That is my feeling. Others may have different views.

Q. You feel there should be something in the Financial Administration Act, or somewhere, to authorize it?—A. That all depends, sir, on how far you want parliamentary control to go. If you want parliamentary control to cover it there must be a vote before they start anything like this; putting something in statutory form might weaken your control.

The CHAIRMAN: Is it not the case that these amounts were spent for the relief of people in Greece and Korea, and that if we had waited for parliament to meet and vote the amount many people might have died in the meantime?

The WITNESS: That is quite true, sir. I am not arguing this question on humanitarian grounds; it is entirely a question of principle.

Mr. HARKNESS: The only point I had in mind was whether this could be covered by means of an amendment to the Financial Administration Act so that actions of this sort in future could be taken under that act.

The WITNESS: Frankly, I think there is a section in the Financial Administration Act which they could have used, but they did not.

Mr. HARKNESS: I see.

By Mr. Monteith:

Q. What was the original purpose of the Canadian Commercial Corporation's capital? What is it being used for?—A. For purposes of the corporation it is provided with a working capital of \$10 million by the act.

Q. But the act does not provide that it can be used for an advance purchase of this nature?—A. I say they should not do this, but others could take a different view.

The CHAIRMAN: You might say that as it was an emergency the government borrowed the money—to a certain extent—from the Canadian Commercial Corporation and then reimbursed it through votes in the House of Commons at a later date.

The WITNESS: In effect that is what happened.

Mr. HARKNESS: What is the provision in the Financial Administration Act that might have been used in this procedure?

The WITNESS: The Governor General's warrant.

Mr. HARKNESS: I see.

The CHAIRMAN: Are there any questions on paragraph 54?

Mr. ZAPLITNY: Would it not be possible, assuming that this type of corporation would be an appropriate or suitable agency for this kind of purpose, to authorize a nominal vote of, say, one dollar a year so that funds might be available to meet a situation of this kind? Adjustments could be made later by means of a supplementary estimate.

The WITNESS: Actually, sir, the Fisheries Price Support Act is broad enough to cover that purpose; but for reasons of which I am unaware, they did not use the machinery of the act, but used another means.

By Mr. Harkness:

Q. The general effect of this would be that the statement of liabilities would not show the true position; it would be short of this amount which is probably, \$647,000.—A. That is right, sir. Since then Parliament has voted the money; the money was voted last week. The problem was a simple one: it was decided that the government of Canada should assist in supporting the price. Before the government of Canada acted, the province of Newfoundland decided it also would support the price, and it paid out a larger sum than this. In these circumstances it was agreed that two authorities should not pay for the same thing, there should be a sharing of the cost. The difficulty was to get a satisfactory accounting, from the province, of the disbursements it had made. That took a long time because the payments were made through various employees of the Department of Fisheries of Newfoundland. But I understand that situation has been dealt with and the accounting is in order.

Q. Is this process going on again at the present time?—A. To my knowledge, no.

Q. What is involved here is just this one payment on the 1953 catch?—A. To the best of my knowledge.

The CHAIRMAN: Are there any questions on paragraph 55?

By Mr. Harkness:

Q. You state here that collectively the account lost approximately \$80,000 in interest. That would be a bookkeeping entry would it not? It would not be interest on actual securities?—A. The matter of concern is the effect on the actuarial value, or state, of the fund.

Q. This appropriation of \$1,316,000—was it, in fact, made but not paid over by March 31?—A. No sir. The vote was exhausted. The act, unlike other superannuation acts, does not provide for contributions by the government of Canada. It provides for payments by service people and payment of interest on the account. But, as I say, no provision is made for any contribution by the government of Canada. I do not know the reason for this. I would assume it was not known what the amount should be, because of the

earlier retirement age of service people. Experience was required. Therefore, by order in council, it was decided that the government would make a contribution of 166 per cent of the contributors' contributions, the order in council to have effect of course, through a vote. Accordingly the House of Commons votes a sum of money each year in respect of this contribution. As of March 31 last, that vote was spent right to the last dollar, and there was still this amount to be paid.

By Mr. Monteith:

Q. So this deficit will have to be made up in this years' vote?—A. As soon as they got the new vote. What the situation is as of March 31 this year I do not yet know.

Q. Because of the lack of this payment, however, the fund has suffered a loss of \$80,000?—A. It is suffering the loss of interest.

Mr. HARKNESS: Does it mean that this amount will have to be borne subsequently?

The WITNESS: Unless the vote for this present year is big enough to pick it up. I do not know.

Mr. MONTEITH: I take it that that \$80,000 interest which was not received as the result of the money not having been paid may be dealt with separately; you do not reaccrue it, or anything like that?

The WITNESS: No.

The CHAIRMAN: Paragraph 56?

By Mr. Harkness:

Q. What is the point here, Mr. Sellar?—A. Simply that when this bill was before the house there was quite a lot of controversy about it and I thought you might like to know how it is worked out. Approximately 16 per cent of the civil servants contracted out of the bill. This paragraph is intended just for your information.

Q. This is the particular measure over which there has been some difficulty with regard to people not being able to secure the benefit—A. No. In the house it was suggested that the legislation should be modified to the end that people be given an opportunity to contract out. They were given that opportunity and 16 per cent did contract out. Oddly enough, the same percentage is applicable to the service people, although that was an entirely different proposition. As I say, I have reported this purely for information because the matter was discussed in the house.

Q. In other words, about 84 per cent did take advantage of the bill?—A. Yes sir.

The CHAIRMAN: Paragraph 57?

The WITNESS: This is also included purely for information. There is no point in it otherwise.

By Mr. Harkness:

Q. With regard to the matter referred to in sub-paragraph (a)—the loans made in 1951—this may be of some considerable interest in view of the loan scheme which was put through this year. The act, then, apparently gave the government a claim on moneys in the hands of the Canadian Wheat Board. Under what circumstances was the government able to exercise that right to claim from the wheat board which, apparently, they had only with regard to a portion of the loan?—A. I have not a copy of the act in front of me, but, under this legislation, only when a bank's losses collectively amounted to a certain percentage could they make a claim for it, whereupon the government

was given certain rights by the statute to any balances owing by the wheat board to the debtor. The banks did not have that right, but the government was given a claim to any residual amount due to the debtor by the wheat board, and the government got a few dollars that way.

Q. I was really wondering what was the liability of the wheat board with regard to these loans?—A. They did not guarantee.

Q. Apparently the government has claims on the wheat board for losses.—A. I think the simple way to describe it would be to say that we were, in effect, given the right to “garnishee” the wheat board for any balance it might owe to a particular debtor.

Mr. APPLEWHAITE: Would it be correct to say that the only claim against the wheat board is against any money it may hold in trust for a defaulting borrower?

The WITNESS: That is correct.

The CHAIRMAN: Are there any further questions?

By Mr. Harkness:

Q. With reference to the Veterans Business and Professional Loans Act mentioned in paragraph (b)—I take it that the loans made in respect of this are now uncollectable? The cases involved here would mostly be those of veterans who started small businesses; the businesses folded up and as a result all the security that existed disappeared, with the result that the losses would be uncollectable in most cases.—A. I think that would be the case, but the department must regard these accounts as collectable until parliament gives authority for them to be written off.

Q. That is the point I had in mind—whether there was any authority to write off these amounts. I think, myself, that they come into a class of debts which should be written off.—A. Yes, but there is legislation in force which states that parliamentary sanction is required to the formal write-off.

Q. As things stand, there is no authority to write them off?—A. No sir, they have to stay in the books.

By Mr. Applewhaite:

Q. As I said, I think these are among the items which should be written off because they complicate the accounts more or less uselessly, and lead to the expenditure of more money in printing, making entries and so on. If these accounts were written off without reference to parliament, the matter would never come to our attention at all, is that so?—A. Yes, that is the reason—so that there shall be no partiality shown towards any debtor. We have to disclose our hand to parliament whenever we want to write-off a debt. I think that policy is sound. It may add a little to the bookkeeping but I do think that, in principle, parliament should be fully informed on these things.

Mr. HARKNESS: What your thinking would amount to, then, is that authority should be secured from parliament to enable these things to be written off?

The WITNESS: The Act now stipulates that deletions may be made at the end of a certain period of time—five years in respect of amounts less than five hundred dollars and ten years for sums exceeding a thousand dollars.

The CHAIRMAN: Are there any further questions on paragraph 57?

Mr. POMMER: I would like to make one observation in connection with the Farm Improvement Loans Act. I think the number of loans made, and the small amount which has been required to reimburse banks, shows that this has been a very fine operation. The figures show that those concerned have been doing good work and rendering a great service. I note with

pleasure the very small size of the deficit on account of repayments. That is the only observation I want to make, Mr. Chairman. I am very impressed by this section 57 (c).

The CHAIRMAN: Now, Mr. Sellar, the next paragraphs from number 58 to 70 come under the heading Statement of Assets and Liabilities. Would you like to make a general statement to the committee with regard to that section of your report?

The WITNESS: Yes sir, I think that would be a good idea.

You have already indicated that you intend having the Deputy Minister of Finance before you, and this gives me the opportunity to show what co-operation we have obtained from the department. Paragraph 58 is, virtually speaking, what they have done and what we agree with. In paragraph 59 we make some suggestions that they might consider. In subsection (a) we suggest they should show the Veterans Land Act account separately because it now amounts to the large sum of \$188 million. They agree with us, and in next years' accounts that will be done.

In the liability suspense accounts there are some items that should not belong there. There are some "holdbacks" in connection with the Emergency Gold Mining Assistance provisions, for example, totalling over \$3 million which really should be listed under Trust and Deposit Accounts. The Department of Finance agrees with us and is going to transfer these,

With respect to the inactive balances, they are not sure what they will do. I have a feeling they should do something with regard to them. To take one item as an illustration: in the accounts you will find under the heading "accounts owing by reason of the victory loans 1917, 1918 and 1919," the sum of \$1,621 for canvassers. But that was 40 years ago, and common sense tells us that there is no hope on God's green earth of any canvasser coming along now and asking for a few dollars. That was a patriotic gesture made many years ago and they have forgotten all about it.

Mr. POMMER: In other words, those amounts have not been claimed?

The WITNESS: No. They will never be claimed. I think these little items should be taken out.

With regard to subparagraph (d), the province debt accounts, these are just memorandum accounts and have no place at all in the present statement. The finance department has agreed that they should come out. That illustrates what has been done in that field.

Paragraph 58 is simply a statistical statement of what composes assets and liabilities.

By Mr. Monteith:

Q. May I ask a question here, Mr. Sellar? Would the total of the small suspense accounts you have mentioned in paragraph (b) be very large? —A. There are so many of them, that is the trouble. They might run into several hundred thousand dollars, though I doubt if the total would be so high.

Q. Actually, the net debt picture would not be altered to any appreciable extent?—A. No, it would have no real effect there, sir. As I say, in paragraph 60 I am simply summarizing the assets and liabilities. In paragraph 61 a point arises on which you might possibly ask me some questions, namely this \$100,000 on deposit in a bank in New York. I do not know why that account was ever opened, because the Minister of Finance and the deputy minister of finance of those days are no longer in office; but since this matter was drawn to the attention of the department the present minister and deputy minister decided that the account should be closed, and it has been closed and the money moved into a more active government account.

Paragraph 62 I regard as a matter of substance. I do not expect that you, gentlemen, will specifically decide what should be done, but I am hopeful that you would be disposed to suggest that the government consider this general question. What worries me, Mr. Chairman, is that some financial statements of corporations showing debts to the government are for greater amounts than our public accounts show as owing to the government, the margin of difference in some cases being very considerable. I would like to see a situation where the public accounts and the statements of the corporation were as closely as possible reconcilable.

I think, also, that something should be done about the Bank of Canada. We show the Bank of Canada as representing an investment of \$5,900,000. The Bank of Canada has a reserve fund of \$25 million and it surrendered profit of last year totalled over \$40 million. Our investment in the Bank of Canada represents in my view more than \$5,900,000 for assets purposes. I do not know what the amount should be, but I do think that in a case of this kind the department should be encouraged to put down a more realistic figure. On the other hand, there is a very large item of six million no-par-value shares of the Canadian National Railways which are not shown in the government's account at all, though the railway shows it in its accounts as a liability to the government of Canada for \$396 million. That is in accordance with the legislation of a few years ago. The Canadian National Railways is also required by that legislation to put a footnote after this sum of \$396 million to show that it is part of the net debt of Canada. Items of this sort stretch throughout the accounts—cases of corporations having very substantial assets in addition to what we show. I am a believer in the crown corporation financing method, but I also believe that our accounting technique is not as good as it should be. That is why, if and when you have the deputy minister of finance here, I hope you may be disposed to ask some questions as to the department's policy in valuing investment in these crown corporations.

By Mr. Applewhaite:

Q. Is the problem that you have outlined, and to which you refer in paragraph 62, of the same nature as the problem to which you are directing our attention in paragraph 96?—A. It is an allied problem. In paragraph 96 I am dealing with the cash assets and the securities held. Let us take, for example, the National Harbours Board. In cash and securities—and I mean by that securities which they bought in the market—they have approximately \$47,500,000. That is a nice sum that the board has accumulated, and they should be congratulated on it.

By Mr. Cavers:

Q. Does that represent profit on their operations?—A. It is, in part, their replacement account. Annually they take out of their operation revenues so much for a replacement account, rather than a depreciation account, and they invest that money in securities. The public accounts show an investment in the National Harbours Board of \$107 million. On the other hand, the National Harbours Board shows its liability to the government as \$356 million. Some members of the committee will see that paragraph 62 and 96 are co-related to an extent.

By Mr. Applewhaite:

Q. There was one other question that I wanted to ask, but it might be dangerous. I wanted to know whether it is the Auditor General's opinion that some crown corporations have in actual cash or liquid assets more than

they should be retaining, and whether he thinks that more of the liquid assets in the hands of certain crown corporations should be transferred to the government of Canada as the owner of the corporations?

The CHAIRMAN: Is that not a question of government policy?

Mr. APPLEWHAITE: As I say, it might be a dangerous question. On the other hand—

The CHAIRMAN: I would not say “dangerous” I would just say it is not appropriate.

Mr. APPLEWHAITE: Well, if you say it is not appropriate I am not going to pursue the matter, but my own thought was that it might be a fair question on which an opinion could be expressed.

The CHAIRMAN: I will leave it to Mr. Sellar. If Mr. Sellar thinks it is a fair question and wishes to answer it, he may do so.

The WITNESS: I am willing to answer the question, Mr. Chairman, but I do not want to be thought critical of the corporation which I am going to name because it is well run. I refer to the Crown Assets Disposal Corporation, which is efficiently managed and operated. The legislation provides that the Crown Assets Disposal Corporation shall receive a commission on sales with the commission rate fixed by the governor in council from time to time. Currently it is allowed 10 per cent. In its own report the corporation states that its cost of operation last year was in the neighbourhood of between seven and eight per cent, if my memory serves me right. They have accumulated a surplus of well over a million dollars, and in a set-up such as this I find it difficult to satisfy myself that there is a need for the corporation to hold so large a surplus. The reason I mention the Crown Assets Disposal Corporation is this: since its report was prepared, the Department of Finance and the Minister of Defence Production reviewed the situation and have transferred to the consolidated revenue fund part of this surplus held by the corporation. That, sir, is why I am quite prepared to refer to one specific corporation.

The CHAIRMAN: That is another example of cooperation between the auditor general and the Department of Finance.

The WITNESS: Well, I would not say cooperation only because we always get splendid support from the Department of Finance.

By Mr. Harkness:

Q. Are we going to have any questions on these paragraphs now? I thought Mr. Sellar was going to make a statement on them all?

The CHAIRMAN: I think it would be better to deal with them in that way.

The WITNESS: I think the committee should forget about paragraph 64 because last week parliament made an appropriation which alters the situation set out in that paragraph, and I have yet to see the accounting; so I would say you could ignore paragraph 64 when you come to it.

Paragraph 65 is purely informative.

The department is considering action along the lines we suggest in paragraph 66.

Paragraph 67 is of some concern to you, gentlemen. We have suggested there that the computation for amortizing loans be changed so as to use the optional date rather than the final maturity date. The finance department has often exercised the option call date in recent years. They have agreed that our suggestion is a better procedure and they are putting that into effect.

We also suggested that they should consider a different system in handling the amortization of the cost of issues of savings bonds, because while the

average loan period is 12 years in respect of these, very substantial redemptions take place. The department is now putting into effect a plan whereby it will amortize these costs over a five year period rather than over a 12 year period, and we think they have reached a sound conclusion.

Discussion of paragraph 69 opens a very broad question, Mr. Chairman, and I do not know whether you wish me to take it up now or later, when we reach it.

The CHAIRMAN: If you like we will wait until we come to that.

The WITNESS: Very well. The following paragraph, paragraph 70, contains information, and that, Mr. Chairman, concludes the outline of these particular items.

By Mr. Harkness:

Q. With regard to this item 58 (c)—balances regarded as uncollectable or otherwise of no asset value, previously included in asset items, but now written off or included in the new item inactive Loans and Investments, would you tell the committee how much is involved in this?—A. I have not got the figure before me, but there is the Greek loan, the Rumanian loan, and items of that kind. That would be, I imagine, in the region of \$30 million. It is still in the account, but under a different heading.

By Mr. Applewhaite:

Q. I was just going to ask a question about those loans on paragraph 63. Have the Greek and Rumanian loans both been written off?—A. They have not been written off, because the department has to come to parliament for authority to do that; moreover, technically speaking, neither has fully matured.

Q. Have they been transferred to the list of inactive accounts?—A. They have been transferred to a suspense account.

By Mr. Cavers:

Q. With regard to the suspense account mentioned in paragraph 59 subsection (b). I wonder whether in this government held suspense account provision has been made for dealing with war savings certificates that have not been cashed? There are, I imagine, a great number of those still in circulation—certificates which have never been presented for payment. The seven year period is long past, so that no interest is payable; but any person presenting a certificate would be guaranteed payment and the money would have to come from somewhere. Where would it come from?—A. The public debt, sir, in the same way as all other bonds that have not matured. They are still all under Public Debt items.

By Mr. Harkness:

Q. With regard to paragraph 58 (c)—all these things transferred to inactive Loans and Investments—I take it that essentially that is all covered by the Rumanian and Greek loans and that the loan to Nationalist China is not included among the items that have been transferred to this category?—A. I would like you to ask the Deputy Minister of Finance how he made up that item. I did not go into detail with regard to it. I could find out, but you could get better information from him.

By Mr. Monteith:

Q. In paragraph 60 you mention the unamortized costs of these loans, and so on. Where would they appear among the assets?—A. Under the heading Deferred Charge—Unamortized Loans Flotation Costs.

Q. I see. I notice with regard to the third item, Sinking Fund and Other Investments Held for the Retirement of Unmatured Debt, that bond issues of recent years have all been on an instalment basis and there has been no sinking fund.—A. The sinking fund is in connection with the Newfoundland loans that we took over at the time of union. Canada took over the loans they had in the London market; there was a sinking fund associated with them plus an agreement saying that proceeds of certain codfish sales on the continent of Europe should also be kept for the purpose of the repayment of that loan.

Q. The liability appears under Unmatured Debt, and shows whatever is in the sinking fund?—A. Yes.

Q. In the Provincial Debt account arising out of Confederation—I notice there has been no change for two years; has there been any change for the last few years?—A. Not since 1867, sir, but there will be this coming year. It is going to be dropped. It does not mean a thing.

By Mr. Harkness:

Q. I have a question with regard to paragraph 59 (a) which deals with the Veterans Land Act. How much of these advances have now been put in as a separate item?—A. My recollection is \$240 million with \$61 million in reserve.

Q. My next question is: what is this related reserve, and how is it built up?—A. Let me correct my figure. On page 96 of the Public Accounts you will find: Veterans Land Act, Advances, \$221 millions, less a reserve of \$59 million. This reserve, sir, is provided by legislation. If a borrower meets his obligation on time, performs his contract, and so on, parliament has provided that at the end of ten years he is entitled to certain credits.

Q. That is the additional grant?—A. Yes, and that is what the sum in the reserve represents.

Q. I see. I thought the amount of this additional grant had been recovered by the Veterans Land Act itself—in other words that the money had been voted for this purpose. What happens, actually, is that money is paid in by the treasury department to build up this reserve to look after the situation. Is that the process?—A. No sir. The department, having regard to the likelihood that most of the men concerned will qualify for this benefit, annually, it is adjusting its own valuation of the debt owed by the veterans to the government by crediting this reserve, and subtracting the amount from the total debt. This should avoid the need for the sudden appearance of a big adjusting item in the balance sheet. It should be borne in mind that most of these loans were made in the period between 1946 and 1948.

Q. What would be the amount of these uncollectable balances referred to in subparagraph (c)?—A. As I said before, sir, you will find under that heading a large number of items, both assets and liabilities. I would not like to venture an estimate as to the total figure, although they are small items individually, collectively they might represent a fair sum—on paper. I repeat—not in money but on paper.

By Mr. Monteith:

Q. I wonder, Mr. Sellar, if you would detail how you arrive at the net debt figure. Is that simply a balancing figure between all the moneys owed and whatever moneys we may have on the books?—A. Yes sir.

Q. And that net debt figure actually increased by \$148 million in the fiscal period ended March 31, 1955. A deficit, as I recall it of somewhere in the neighbourhood of \$40 million for this year was announced in the house—or am I wrong in saying that?—A. It would be some figure, but it would not

be the one the minister used in his 1955 budget speech. He envisaged a deficit of \$160 million in his budget speech a year ago, and the final figure was somewhat less.

Q. Yes. It was two years before—for the year 1954-55—I think there had been forecast a comparatively small surplus which actually turned into a deficit. Was that not the case?—A. I do not think so, no. That is the amount you have before you.

Q. That is this sum of \$148 million?—A. Yes.

The CHAIRMAN: Paragraph 60? Paragraph 61? Paragraph 62? Paragraph 63.

By Mr. Harkness:

Q. In connection with paragraph 63, when were these three loans made and what was the purpose of each?—A. The loan to Nationalist China of \$49 million originally was a larger sum and was made under the authority of legislation. Around 1945, you will remember, the governor in council was given power to lend up to \$750 million before the end of 1947 to countries who had been allied to us during the war, in order to assist them in rehabilitation and so on. The loan to Nationalist China was made under this provision.

The \$24 million loan to Rumania is a residue of advances made to that country in 1918-19, a loan which goes back to the time of the first world war, and the same applies with regard to Greece.

Q. Has this loan been repudiated so far as Rumania is concerned?—A. No, none of them has ever been repudiated by any government, but they have not paid anything for a great many years. The Greek loan has been in default, I know, since 1930, and I imagine the Rumanian loan fell into default at about the same time. However, the securities we hold have not all matured yet. They could have a change of heart, but we are rather doubtful.

By Mr. Applewhaite:

Q. Are those loans interest-bearing, and if so is the figure given here—principal plus accumulated interest?—A. The figures relate to the principal only.

Q. Were they interest-bearing loans?—A. Yes sir.

Q. Where would the Public Accounts show the accrued interest?—A. It would not be shown in the Public Accounts at all.

Mr. MONTEITH: We only show interest when received?

The WITNESS: Yes, that is right.

By Mr. Harkness:

Q. The interest does not appear as an uncollectable asset, then?—A. It is not written up at all.

Q. What is the reason for that?—A. Well, we would be putting something into the revenue statement as if we had actually received it, and in our system of accounting that would not be correct. The record relates, of course, to cash. That is why this interest is not reflected in the revenue statement, nor in the balance sheet.

By Mr. Monteith:

Q. On that matter of cash financing, Mr. Sellar, when a coupon becomes due on a certain bond issue is there a bookkeeping entry setting that total amount up as a liability?—A. The Bank of Canada services the public debt. The Bank of Canada indicates to the Department of Finance the amount of

money it expects it requires in order to pay interest on the next interest-bearing debt. The Department of Finance transfers to the Bank of Canada the necessary amount, and periodically the Bank of Canada and the Department of Finance reconcile their accounts. If the Bank of Canada has more money on hand than it requires for operating purposes then the amount paid over by the Department of Finance is reduced proportionately.

Q. Then the government account here would not necessarily show the full liability of possible coupons outstanding?—A. No, it might not.

The CHAIRMAN: Paragraph 64?

Paragraph 65.

By Mr. Harkness:

Q. Would these amounts we see in connection with the Canadian deposit with the International Monetary Fund make any difference in the national accounts?—A. No sir.

Q. We have no further obligation to put more money into the account than we have already, if it were to happen that our dollar went down in relation to the United States dollar?—A. When we have to put in more money we get compensated by an item on the other side. On balance it does not affect the debt position to any material extent.

Q. But it might affect the cash position. If our dollar went down to, let us say, a 20 per cent discount compared with American funds we would be required to put a considerable amount into the monetary fund.—A. Yes, but that can stay with the Bank of Canada, if it is in the form of gold. The Bank of Canada is a custodian for the monetary fund.

Q. They just put a different ticket on the gold bars?—A. Precisely.

The CHAIRMAN: With regard to paragraph 66 I think you said that the action you suggested has been taken?

The WITNESS: Yes sir—or is being taken.

The CHAIRMAN: If there are no more questions we will go on to paragraph 67.

Mr. APPLEWHAITE: With regard to paragraph 67, did Mr. Sellar say that the optional call date is going to be used?

The WITNESS: Yes sir. The suggestion is being adopted. There is no necessity to make any recommendation on that.

The CHAIRMAN: Paragraph 68?

Paragraph 69.

Mr. HARKNESS: This is the paragraph on which Mr. Sellar was going to make a statement to us.

The CHAIRMAN: Oh yes.

The WITNESS: This is a subject, sir, with regard to which, if my point is right, I can be criticized for not drawing your attention long ago. I hope, therefore, that the committee will not regard me as criticizing the Department of Finance any more than I would be criticizing myself.

It seems to me that the Minister of Finance is putting up as a liability something that is not a liability in the true sense of the word. The facts are: under the legislation, if we transfer to a NATO country let us say a million dollars worth of munitions out of the stocks of the Department of National Defence, that sum is reflected as an expenditure charged against an appropriation of National Defence for that year. Simultaneously a credit of one million dollar is set up, and out of that credit the Department of National Defence may, with the consent of the governor in council, buy new equipment to replace the million dollars worth that went out. That credit account is the liabilities item.

My view is that for a liability there must be a creditor and a debtor; the Department of National Defence is simply a division of the government therefore it cannot be regarded as a creditor of either the government of Canada or the Minister of Finance. The amounts set up are really for memorandum account purposes to keep the record and fix the limit to which the department must adhere when procuring equipment as a charge to the account. The amount is now very large, therefore I would not suggest any drastic action because that would tend to create the impression that the minister was adjusting his accounts in order to show a big surplus, which would be the last thing he would have in mind.

What is also of concern is the fact that there are several other accounts of similar nature, although some, I think, should be recognized as a liability. There is the railway grade crossing fund for example which has around \$2,700,000 to its credit. It is true that is all in the government's hands but since the distribution of this money is made by the Board of Transport Commissioners, which is a court, the government has not the same control over it as it has over the defence replacement fund.

The Colombo Plan is an instance of a somewhat similar account. There is about \$50 million in it, and in that case there are international understandings between the government of Canada and various countries in Asia. I do not therefore regard it in the same way as I would regard the first account I mentioned.

Parliament provides that two and a half million dollars a year for the national capital fund, to take another example, but not one cent of it can be spent until the governor in council authorizes a particular project. This is set up as a liability but I question that.

I hope members of the committee will feel disposed, when you have the Deputy Minister of Finance before you, to have him explain the principles on which he is relying in setting up these accounts. My own view can be summarized by reference to a comparatively recent decision of the Appeal Court in England. The court was dealing with an estate matter and had to decide what were the liabilities and the contingent liabilities of a company, because that had become important for the purpose of interpreting a will. I would like to quote a few words from the judgment of the Master of the Rolls. He was discussing the word "liabilities" of a company when he said:

Taking the construction of these words, I find it impossible to give them a meaning extending beyond what is always ascertainable without any doubt whatsoever, namely, an existing legal liability actually existing in laws at the relevant date. The words cannot be stretched so as to cover something which in a business sense is morally certain and for which every businessman ought to make a provision but which in law does not become a liability until a subsequent date.

That, sir, is my view. If you want me to narrow it down to a straight comparison I will say this: we set up in the statement of liabilities, the public debt. We do not set up the interest we have promised to pay over the next ten or fifteen years. Therefore I have the feeling that the Minister of Finance is worrying a little too much in assuming that certain things are liabilities when in fact they are not. That is my view, sir. Should you feel so disposed I would appreciate it if you ask the Deputy Minister of Finance to give his views on the subject.

By Mr. Applewhaite:

Q. Mr. Chairman, I was following Mr. Sellar's remarks but I think I lost him somewhere because I had gathered that the NATO situation is entirely different. Is not the NATO fund a revolving fund; where these physical assets

are transferred, is not a corresponding cash amount paid back into the fund so that the amount remains constant until the money has been spent the second time?—A. There is no money involved. This is all bookkeeping. The NATO country never pays anything. The government of Canada first of all debits its vote with an amount—let us say one million dollars for munitions and credits the replacement account. Subsequently the Department may, with the consent of the governor in council, buy new supplies and charge them against this million dollar credit. In a way you are right, Mr. Applewhaite, in saying that this is a revolving fund but I am more inclined to regard it as just a memorandum account. There is no actual cash money involved.

The CHAIRMAN: There is no actual cash money but the National Defence vote has included this million dollars. That is why you think that if it has already been voted it should not be considered a liability?

The WITNESS: Yes. We are overdoing it.

By Mr. Monteith:

Q. About this million dollar item you mentioned—what other way would you suggest we could use to handle this? It is true that the procedure being followed at the moment is probably not quite correct, because this has not been a new expenditure for supplies sent out.—A. Not at the time.

Q. I was just wondering how you would handle it. You would want to keep some memorandum?—A. Oh yes. This plan is in the act; therefore, as an officer of parliament I cannot criticize the wisdom of parliament. But, if parliament had asked my view of the subject I would have advised making this a deferred expenditure and charging it in the year when the goods were actually purchased. As it is now, I would continue to make the charge in the year during which you have, in effect, lost one million dollars worth of supplies, but I would not put it up as a liability but rather record it in a memorandum account and control it by means of that account,—not through the liabilities statement. There would, of course, be a statement included in the public accounts informing parliament of what purchases had been made in the year.

Q. Yes, because supposing the vote covered \$1,175,000,000 or a figure of that kind, the one million dollars being charged up against that is not actually a cash outlay, and as a consequence it could reduce the amount of cash outlay that could be made. —A. That could happen.

Mr. APPLEWHAITE: Or it might increase the amount of cash outlay. If you give away a million dollars worth of obsolete stores you would have another million free which you could spend in cash.

By Mr. Monteith:

Q. Under the present method; but we are probably spending \$1,700,000,000 in any one year on new supplies—am I right in saying that that is a fact?—A. Yes.

Q. Well, if you give away a million dollars and charge that million dollars to the vote you only have \$1,774,000,000 left to spend in cash.

Mr. APPLEWHAITE: But the minute you give it away it becomes available in cash as I understand it—the minute you give it away to a NATO country the department is able to draw on consolidated revenue again for another million in cash.

Mr. MONTEITH: That million dollars in cash is charged to credit.

Mr. APPLEWHAITE: So my impression that it is a revolving fund was not far wrong.

The WITNESS: I am worrying about the liabilities side.

By Mr. Harkness:

Q. Is not this what is happening? Say \$200 million of equipment is sent to NATO countries and the total vote is \$1,700 million. In that particular year, the Department of National Defence can actually spend \$1,900 million?—A. With the consent of the governor in council.

Q. In other words they have \$200 million more to spend in that year, and that is actually what has been happening. That \$200 million is not charged against the \$1,700,000,000.—A. Over a series of years it has been charged somewhere.

Q. It might have been a charge on the vote prior to 1939?—A. No, this came in in 1950 or 1951.

Q. Yes, but the equipment they give away might have been equipment secured prior to 1939.—A. Oh yes, I see your point. It could be.

The CHAIRMAN: From the practical point of view the army would be exchanging old equipment for new—they give away the old and get money with which they can replace it by new material.

Mr. HARKNESS: It is not charged against their current appropriation.

The CHAIRMAN: That is an interesting point which we shall take up with the deputy minister.

I think you said that paragraph 70 was just information?

The WITNESS: That is right.

The CHAIRMAN: Would you care to indicate to us which of the paragraphs in the section crown corporations might be of interest to the committee?

The WITNESS: In connection with the crown corporations, I have made an effort, somewhere or other, to name every corporation I audit so that if the committee should wish to summon any corporation before it for any purpose they can turn to the particular paragraph as a reason for doing so.

I only qualified one audit certificate for a crown corporation and that was in connection with the Northwest Territories Power Commission. Some physical inventories related to construction work were not properly accounted for, and I had to qualify my certificate. Since that date the corporation has carried out a proper stock taking and everything is now in order. That is the only case where I qualified a certificate, and the committee need not worry about that. Therefore, sir, the only suggestions I make are those contained in the last two paragraphs, paragraphs 95 and 96.

Paragraph 95 deals with a question of policy and, in my opinion, executive policy; but this committee might be disposed to suggest that the government should give the matter a little consideration. It deals with the question of fire insurance. There is inconsistency in practice with regard to this—sometimes a corporation is self-insured, sometimes it is insured with a commercial company, and so on. For example, Canadian Arsenals has in its custody buildings which cost \$36 million, in addition to about \$56 million worth of machinery and equipment, materials, work in progress and so on up to a total of about \$60 million,—which is a lot of money. It does not carry any insurance on this at all, because all property is technically regarded as being government, not corporate, property.

Polymer, on the other hand, an organization that holds buildings and equipment at a depreciated value in excess of \$30 million in addition to inventories of about \$10 million, insures in the ordinary way with commercial insurance companies. If Canadian Arsenals for example were to have a bad fire and it was supplying somebody other than the government of Canada, the parliament of Canada would have to find quite a lot of money to make good

that loss. It is a matter of policy whether or not the government should consider giving formal guidance as to when crown corporations should insure against risks of fire, and so on.

I do not expect this committee to decide the matter but I hope you would be disposed to ask Mr. Taylor about it, and probably make some suggestion.

By Mr. McGregor:

Q. What would the cost of insurance be?—A. I have no idea. I was looking at the matter from the point of view of principle.

The CHAIRMAN: Have you anything to add, on paragraph 96, to what you have already said?

The WITNESS: No, I think that in the earlier discussion on paragraph 62 I covered what I had in mind on paragraph 96, but of course I cannot say what the interest of the committee may be.

The CHAIRMAN: Have hon. members any questions to ask on this section on crown corporations?

By Mr. Harkness:

Q. Can you give us any idea what difference it makes whether a crown corporation is a departmental agency or proprietary from a practical point of view?—A. "Departmental" means a corporation defined by the Financial Administration Act. The big difference between an agency corporation and a proprietary corporation is that an agency corporation must submit both operating and capital budgets, while the proprietary corporation needs submit only its capital budget. Secondly, the proprietary corporation is subject to income tax, while the agency corporation is not.

Q. Then this transfer of the Northwest Territories Transport Commission from the proprietary classification to the agency classification would remove them from liability for income tax.—A. Yes sir, and I think that is right. Ontario Hydro, for example, is not subject to income tax. I was very glad when I saw they had transferred that corporation.

Q. I take that to be sound, because they are supplying power for the development of the territory.—A. The trouble is the act provides that if at the end of the year they have a surplus, that may go back as credits to the consumers. I think the change that has been made was quite desirable.

Q. Is there a general rule by which it can be determined whether these crown corporations will be departmental agencies or proprietary agencies, or is it at the discretion of the government to change their status as they like?—A. In the first place they are listed under the Finance Administration Act, but the governor in council enjoys a discretion to vary. Parliament, in the first instance, made the broad classification, and the government always has regard to the statutory classification in trying to establish the category in which a new corporation belongs.

Q. What was to be the general characteristics of a proprietary company?—A. A company in commercial business performing commercial services with an expected reasonable income.

Q. In other words, companies like Eldorado and Northern Transportation?—A. Northern Transportation, Polymer and so on. Of course, unfortunately at the moment it is rather hard to say where the C.B.C. belongs, but it is in there.

Q. It is proprietary?—A. It is proprietary, sir.

Q. That seems rather hard to explain, in view of the fact that the corporation is financed out of specific taxes assigned to it.—A. Yes sir, but that is where parliament put it.

The CHAIRMAN: Paragraph 72.

By Mr. Applewhaite:

Q. The paragraph states that the "departmental" group consists of those corporations financed in the same manner as departments, with expenditures and revenues detailed in the public accounts. That would mean they are financed by an appropriation in the estimates or in some cases, perhaps, by statute, and if this is correct are there any other ways in which departmental corporations are financed?—A. No. Would you like me to give you a list?

Q. I was really interested in finding out what are the possible sources of revenue for the departmental group—whether they are all financed by appropriation or by statute or whether there are other sources of revenue.—A. Take the Director of the Veterans Land Act as an example—he gets certain income, which you might call revenue from the public; but on the whole they rely entirely for their spending money on appropriations from parliament.

Mr. HARKNESS: You have a list of both the agencies and proprietary corporations here but there is no list of the departmental corporations. Would it not be of advantage for us to have that list?

The WITNESS: The Agricultural Prices Support Board; the Atomic Energy Control Board, the Canadian Maritime Commission; the Director of Soldier Settlement; the Director, the Veterans' Land Act; the Dominion Coal Board; the Fisheries Prices Support Board; the National Gallery of Canada; the National Research Council; the Unemployment Insurance Commission.

Mr. APPLEWHAITE: What is the position of the R.C.M.P.? Do you regard that as an agency or as a department of government?

The WITNESS: As a department of government sir.

The CHAIRMAN: Paragraph 73?

Paragraph 74.

By Mr. Harkness:

Q. What is the point of this paragraph? Is it just to show that in the case of the National Harbours Board this is an expense?—A. No, it is just to show you will get more detailed information if you will go beyond the financial statement to the corporate reports.

By Mr. Monteith:

Q. How many proprietary corporations or agencies are audited by outside auditors?—A. There is the Canadian National Railways and its affiliates, The Central Mortgage and Housing Corporation, and the Bank of Canada and its affiliates. I think those are the three.

Q. Those are the three?—A. Those are the big three—those, and the Canadian Wheat Board, which I forgot to mention.

Q. Does that outside audit arise because of the scope of their activities, or what?—A. By act of parliament in the first instance, and for one reason or another it was decided to leave them that way. We always feel we can tackle any audit job that is wanted, but we are not looking for work.

The CHAIRMAN: Paragraph 74?

Paragraph 75—it is a list of companies—

By Mr. Harkness:

Q. As far as paragraph 75 is concerned I notice there the National Battlefields Commission—where would they get any revenue apart from votes?—A. They have very little revenue, but they do have some in the same way as the Federal District Commission has a little revenue. They might rent some of their equipment, or do some work for the city of Quebec, or something like that.

Q. I was wondering why they were an agency, rather than part of the department—A. The National Battlefields Commission Act is designed to have the representations of the government of Canada, the province of Quebec and the province of Ontario. The commission is a very well run little show.

The CHAIRMAN: Paragraph 76? Paragraph 77?
Paragraph 78.

By Mr. Applewhaite:

Q. On paragraph 78 I would like to know just how that income of \$46,000 is derived and where it is going to end eventually.—A. The Canadian Commercial Corporation is provided with a working capital of \$10 million. It can act for the government of Canada and for anybody in Canada; it has acted for the United States government in construction work in Canada, for the United Nations, for international organizations and for other governments. For these services it charges a commission, and the commission may vary. It may be one half of one per cent or three quarters of one per cent as the case may be. It tries to keep down its operating costs and has done this very successfully. From this commission, derived from acting as custodians and procurement agents in Canada, it earned a surplus of \$46,000 last year. That is shown in this account as its surplus—it is one of those little surpluses which the government of Canada could take away if it wanted to.

The CHAIRMAN: Would it not be better to leave it there in case there should be a small deficit in future years?

The WITNESS: The amount is not sufficiently important to worry about—that would be the easiest way to answer the question.

By Mr. Applewhaite:

Q. Just as a matter of principle, they have the right to spend it in a subsequent year?—A. Oh yes. One of the problems of the Canadian Commercial Corporation is this: the act says they may be advanced \$10 million for working capital and they have been advanced the \$10 million; but lawyers have ruled that if they return some of that \$10 million to the government of Canada they could not get it back again, and therefore they have to hold on to it. That is one of the problems.

The CHAIRMAN: Paragraph 79.

By Mr. Applewhaite:

Q. This figure of \$51,000 is, I take it, from proceeds of royalties on patents and so on. Is all that money the absolute property of Canadian Patents and Development Limited, or is it collected and held only in trust for public servants, or do others have a financial interest in this?—A. On account of the legislation the last few years, I would not like to be specific in my answer. I am not sure what the status of it is now; but this company represents the National Research Council; that is really what it is. It is the National Research Council, and the Research Council Act permits them to organize a corporation to manage certain of its affairs. They turned patents over to the corporation as being more convenient. I think you would regard it as being in trust for the National Research Council and for the inventors. There is a special section in the Research Council Act with which I am not too familiar.

Q. Would it be asking too much, whether it should be of the Auditor General or of the department, to find out what should be done on the accounting and paying side to look after the moneys which the inventor, who is a civil servant, has an interest in?—A. I will go into that and file a memorandum.

The CHAIRMAN: Paragraph 80.

By Mr. Applewhaite:

Q. I have a somewhat similar question to ask with respect to this paragraph as to paragraph 78. First of all, what other receipts does Crown Assets Disposal Corporation have which run into nearly \$100,000 here, and where does their final excess of income over expenses end up? Is that a working fund?—A. The Crown Assets Disposal Corporation has income from sales of course. This 10 per cent you mention, which I referred to also, includes collections on agreements for sale. Remember, years ago we sold ships; we have also sold various crown plants over a series of years by agreements, therefore there are interest as well as capital payments coming in.

Q. Those are not shown as proceeds from sales?—A. Not necessarily. Then, they have about \$13,000 worth of bank interest from bank balances, which they hold. Again, the problem is: the act stipulates the corporation is to get a certain commission, if the surplus should be turned over to the government; there is no provision for a return to the corporation if it ran into a bad year.

Q. Is the greater proportion of that \$485,000 either bank interest or interest on sales?—A. \$454,000 was from sales.

Q. In one sense it was a proceed of sales. That was my point.—A. Yes; taken out of receipts from sales.

Mr. HARKNESS: You said a short time ago that part of the money in the hands of this corporation now has been turned over to the consolidated revenue fund?

The WITNESS: Yes, sir.

Mr. HARKNESS: So that their income from bank interest will be materially reduced?

The WITNESS: Yes, sir.

The CHAIRMAN: We are now on paragraph 81.

By Mr. Applewhaite:

Q. As I read this, is it a fact that if we carried out the suggestion made by the Auditor General we would lose track, as a separate item, of the moneys spent on these three buildings on Parliament Hill and they would be merged in with the general Federal District Commission payments?—A. Not necessarily. What I am suggesting is that we get away from the obligation of keeping separate accounts. The statute now requires a separate account, to be set up for each special grant with the result that you have a very cluttered financial statement for the Federal District Commission. No, the objection you would have in mind could be avoided. You would be given the figures as to cost, and I think more accurately than now.

Q. We would continue to show Parliament Hill as Parliament Hill?—A. Yes, you would get that information. As a matter of fact, in view of a Capital Area Committee being set up I have been asked to prepare an observation on this particular section for that committee.

Q. I would definitely be against an accounting result which would leave us without being able to see exactly what Parliament Hill as such was costing us.

By Mr. Harkness:

Q. Since the commission receives a fixed statutory grant of \$300,000 for the purposes of the Federal District Commission Act, and also annual votes not within the ambit of the statutory grant, what is the ambit of the statutory grant, and what would that be used for?—A. Parks and activities of the commission as laid down by the Federal District Commission Act,

it activities now go far beyond that. They are acting as administrator of the national capital fund. They are in activities that are wholly outside their Act.

Q. Would the administrative costs be included in this \$300,000?—A. Certain of their administrative costs, but not all.

Q. In other words, a considerable amount of their administrative costs would have to be made up by these annual votes?—A. Yes. There is \$100,000 worth of administrative costs voted annually under the heading National Capital Planning Committee.

Q. Is part of the administrative cost met by the rent of all these buildings which they have taken over?—A. Yes. They are getting rental now in the nature of \$350,000 a year; that includes buildings and farms.

Q. There was a general announcement in the paper, following these fires, that they might get rid of all this housing because it is of a slum type and that would much reduce their income, and the fund would have to go up to cover their cost. Is that the situation?—A. I have no knowledge of that. I have read it; some of this housing is sub-standard, really cottages and so on, in the outskirts of the city. What they represent in total I have no idea.

Q. But it would appear that will likely be the situation?—A. Yes. The normal expectancy is this rental income should go down.

Q. And therefore the fund will have to go up?—A. Either the grant or drawings on the national capital fund would go up.

Q. Otherwise they would have to reduce their activities?—A. Yes.

By Mr. Holowach:

Q. From this I gather that the Federal District Commission work in two votes, its activities are overlapping. Your recommendation is that there be an annual appropriation rather than simple grants and statutory votes. In addition to bookkeeping efficiency, do you feel that your proposition would also involve a money-saving scheme?—A. I am approaching it purely from a bookkeeping standpoint, better accounting and clearer reports to parliament. However, the Federal District Commission has different views than I have as to what is the best financial setup for the Commission, and they are submitting that to the new committee. They take an entirely different approach to what I have. I only started to read it before I came in here this morning so will not try to state what it is, but the chairman outlined to me recently a different approach to mine. It is somewhat academic for us to consider it now. I think it would be better to defer until you have a specific proposition by the Federal District Commission to the National Capital Committee.

The CHAIRMAN: I suggest that we meet tomorrow morning if it suits the wishes of the committee. We will be able to finish this report probably in about an hour at most.

Mr. HARKNESS: There are some party caucuses on tomorrow morning which would make it very awkward.

The CHAIRMAN: We might sit this afternoon at 4 o'clock.

We will adjourn now until 4 o'clock this afternoon.

AFTERNOON SESSION

March 27, 1956.

The CHAIRMAN: We have a quorum gentlemen.

Mr. Sellar will answer some of the questions which were left in abeyance this morning.

The WITNESS: On paragraph 51 I was asked whether the losses as a result of price support of butter amounting to \$1,506,000 were due to sales to institutions. The answer is, virtually, that they were not. The sale to institutions was authorized in February 1955 and actual sales in March were only \$35,000, so sales to institutions were not the reason for the loss.

On paragraph 58 I was asked the amount of uncollectable balances written off and included in the new item in active loans and investments—I did not have the amount. The item authorizing the write-off was item 579 of the supplementary estimates of last year, and was in respect of \$1,010,000. Details are given in schedule (i) on page 97.

On paragraph 59 I was asked a question about uncashed coupons and I think I may have given a muddled or an inaccurate reply.

The CHAIRMAN: You are hard on yourself, Mr. Sellar.

The WITNESS: That is all right. My job is to make myself clear to this committee. There is a liability item set up for the \$54,200,000 and it will be found in schedule (j) on page 99.

By Mr. Monteith:

Q. May I ask a further question on that, Mr. Sellar? The government—as they remit to the Bank of Canada—is that amount also set up in the books of the Bank of Canada as uncashed?—A. We follow an unusual course in recording interest, inasmuch as interest is accrued from month to month and we credit the accrual account each month. Every six months cash is actually paid out. I am sorry I was not clear this morning on that matter. The accrual cash issues questions confused me.

Then, on paragraph 78 I was asked for the income of the Canadian Commercial Corporation. In giving this information I would like to correct a mistake I made when I said I was under the impression that the commission charges were either one-half or three-quarters of one per cent. The commission charge is either one-quarter or one-half of one per cent. The sum of \$162,000 was received by way of commissions and in buying and selling operations the corporation made \$78,000; it also earned \$72,000 by interest on investments and bank accounts, giving a total of \$312,000. As stated on page 14 of the little book containing the corporation accounts, the most important items of expenditure are salaries and allied expenses of about \$225,000.

Not having a transcript, I am not quite certain as to the question Mr. Applewhaite asked me in connection with paragraph 79, but believe he asked whether there had been legislation in recent years amending the law with regard to inventions made by civil servants.

The act concerned is the Public Servants Inventions Act of 1954. That act repealed section 14 of the Research Council Act but section 14 of the Council Act was in harmony with the present Public Servants Inventions Act, therefore there was no change in policy so far as the Research Council is concerned. Payments to inventors during the year amounted to \$154,582 out of a collection of \$270,992.

Then, I was asked if the civil servants or inventors had any claim on the \$51,000 of net income. I would say the answer to that is yes, because it is permissive in the regulations of the new act to pay bonuses. Whether they will ever pay them out is a question of policy about which I know nothing.

Finally, I was asked in connection with paragraph 80, which deals with the Crown Assets Disposal Corporation, what was the make-up of the agencies account receipts of \$485,000. That is the account held on behalf of the government of Canada. Some \$439,000 was interest earned on long term agree-

ments for sale. Then, in addition, certain property was rented and it produced \$44,000, that is to say, \$483,000 in all, a figure which I had rounded into \$485,000.

I think, sir, that that is the information I was asked for.

The CHAIRMAN: Thank you very much.

By Mr. Holowach:

Q. In respect to the answer given on the subject of paragraph 51. I understand that the loss sustained as a consequence of selling butter—\$1,500,000—was not the result of sale to Canadian institutions?—A. No sir.

Q. Is that loss connected with the sale of butter to East Germany?—A. I cannot tell you that, sir, because the question specifically directed to me referred to Canadian institutions and I only had a couple of hours in which to make inquiries. I may say this, however; the butter involved cost \$20,187,000 and produced \$19,164,000. In other words, there was a loss between purchase and sale price of \$1,023,000. The balance of the amount is made up of freight and other charges of \$119,000, and storage and handling charges of \$364,000. Where these sales were directed, however, I cannot tell you. I will ascertain it for you but I cannot do so at the moment.

The CHAIRMAN: We have reached paragraph 82 dealing with the National Harbour Board. Are there any questions on paragraph 82?

By Mr. Harkness:

Q. I take it in that case that the profits from the operation of the Port Colborne and Prescott elevators during the past few years have been considerable and that it is going in there as ordinary revenue of the Harbour Board though in your opinion it should really go into the consolidated revenue fund?—A. No sir. If you look at the big book, on page Z-97 you will see there an entry for ordinary revenue of \$644,000 as profits from Prescott and \$281,000 from Port Colborne. The Port Colborne receipts were really \$28,000 more, but it owed \$28,000 on a certificate of indebtedness so the net amount is shown.

My feeling is this—that as the two elevators are getting old they will ultimately have to be replaced, and the National Harbour Board should be encouraged to accumulate funds so that it can replace them if and when necessary. As it is now, the profits are being lost in public revenue.

Q. I took it from this paragraph that these two elevators should not be operated by the Harbour Board at all but put into the same position as Churchill and certain other elevators.—A. No, no. Churchill is operated by the National Harbours Board.

Q. It is?—A. Yes sir. It made a small profit last year.

By the Chairman:

Q. Your opinion, if I understand it accurately is that these two elevators should be turned over to the National Harbours Board?—A. For accounting purposes. I do not know what the view of the department is. The department concerned is the Department of Transport, nor I do not know what, specifically, is the view of the National Harbours Board, it has administered these projects for 20 years I would say it should be wholly responsible for their future.

Q. As it is, so far as you know, no depreciation fund is being set up to carry the cost of obsolescence?—A. No sir. You see, the government does not do that.

The CHAIRMAN: Are there any questions on paragraph 83?

By Mr. Harkness:

Q. What is this contingent reserve fund for? They have a regular reserve fund, I notice, and in addition this contingent reserve fund.—A. They have set it up because they are afraid on account of their location that they may suddenly be faced with some catastrophe or disaster in connection with their lines or power plant and they want some cushion against such an eventuality.

Q. In other words, it is an extra reserve?—A. Yes, but at the moment it is not sufficient to amount to anything.

Paragraph 84? This is just a list.

Paragraph 85?

Paragraph 86?

Mr. HOLOWACH: If I may refer for a moment to paragraph 84, it says here, Mr. Chairman, that proprietary corporations are subject to income tax but an exception was made in the case of the C.B.C. and the Export Credits Insurance Corporation. By what authority were those exceptions made?

The WITNESS: There was no exception made. They did not have taxable income.

Mr. HOLOWACH: In the case of the C.B.C. did they not have a net income at the end of the fiscal year?

The WITNESS: Yes, but they got it all from the government. They got \$6 million odd, I think—parliament authorized up to \$25 million for four years I believe. In addition they get the tax on radio tubes, television sets and so on. A question was whether that should constitute income for the purposes of the Income Act or whether it should not.

Mr. MONTEITH: And it was decided it should not?

The WITNESS: So far as I know they were not assessed.

The CHAIRMAN: In other words, there was no profit to assess?

The WITNESS: It would be rather silly, sir, to assess them on that income if they got it from the government for a particular purpose.

The CHAIRMAN: Paragraph 87.

By Mr. Harkness:

Q. I can see that the St. Lawrence seaway have not been in operation long enough to pay income tax, but you said this other corporation had to pay no tax—this export credits insurance under section 91—I take it there was an income in that case?—A. I do not want to go too far because I think discussions are going on at the present time between the income tax authorities and export credit officials as to whether or not its reserve is taxable.

By Mr. Holowach:

Q. In paragraph 81, Mr. Sellar, you make recommendations that there be one appropriation made to simplify bookkeeping with respect to the activities of the Federal District Commission and the national capital fund. In view of the similar circumstances, and namely that the Canadian Broadcasting Corporation has been recently authorized grants and appropriations, would not the same recommendations apply in order to simplify bookkeeping in that case?—A. No, sir, because the situation there is different. The receipts to the broadcasting corporation are really from one source, that is to say the act of parliament saying we shall receive that special grant for a limited number of years plus the annual income derived from the customs duties, the taxes on television and radio machines and so on. The situation is not identical. They have, of course, their commercial income in addition. In the case of the federal government, there are distinct activities. They have to care for the government

grounds, they are responsible also for the care of the parkways and the development of the national capital. It is on the expenditure side there, that I am concerned. However, there is no difficulty in the expenditure of the broadcasting corporation unless you want to consider as distinct the international shortwave service which is handled by an appropriation. That is distinct.

But I would like to keep an open mind on the whole subject until the royal commission now considering these matters goes into them in great detail, because the real problem is this: how are you going to finance the corporation in the future?

Q. It seems to me from the standpoint of bookkeeping instead of having these various grants and so forth, that it might be wise to just have one appropriation for them annually from parliament. Surely from the bookkeeping standpoint it would ensure a more careful scrutiny?—A. That may be so, but when discussing the Federal District Commission may I note that it is in its act that any grants over and above the \$300,000 it receives shall be kept in special accounts and reported on separately. That is not so with the broadcasting corporation; you can follow the accounts of the broadcasting corporation without trouble. You can get a headache trying to follow through the Federal District Commission's expenditures.

The CHAIRMAN: 88 is just a statement of the result of operations.

By Mr. Harkness:

Q. What is the rate of interest which the Canadian Farm Loan Board pays to the Receiver General on loans, and what is the rate they charge to borrowers?—A. It is about fifty-fifty; on part of it it is 3 and $\frac{3}{4}$ per cent and on others $3\frac{1}{2}$ per cent.

Q. That is what they pay the Receiver General?—A. Yes.

Q. And they loan that out at $5\frac{1}{2}$ per cent?—A. On first mortgages at 5 per cent and on second mortgages at $5\frac{1}{2}$ per cent.

Q. So they have a spread of 2 per cent?

The CHAIRMAN: For their administration costs.

Mr. HARKNESS: Yes.

Mr. MONTEITH: Am I thinking of some other corporation when I say there is several million dollars of capital stock on an original loan from the government of 3 per cent?

The WITNESS: Are you referring to the Farm Loan Board?

Mr. MONTEITH: Yes, or am I thinking of some other board?

The WITNESS: I think you will find you are right. In the legislation of 1927 or 1928 it may have been provided for at the 3 per cent rate on the initial capital. I am not sure, I would have to check it.

Mr. HARKNESS: What happens to these net earnings in a company like this?

The WITNESS: They retain them, but of course the government has the right to take the money from them under the Financial Administration Act. Up to the present they put it in a reserve against possible future losses.

The CHAIRMAN: Are there any questions on paragraph 89? It is just a statement of operations?

Paragraph 90.

By Mr. Harkness:

Q. This Eldorado Mining and Refining Limited has a large profit of over \$5 million, and looking over their balance sheet, this small book at page 91, I see that they have had a constantly increasing surplus which now amounts to \$28,905,000. What is the purpose of retaining that surplus?—A. You would

have to ask the corporation or the minister the answer to that. Actually, the situation has been that there has been an exceptionally good management and it has been a constantly expanding activity. They had some hard luck because of a bad fire a few years ago, but they have rebuilt. Then you also have to bear in mind it is one of these businesses where your asset is diminishing. The accumulation of surplus is something you would have to ask someone else about as to what they have in mind.

The CHAIRMAN: Evidently the government made a good investment when they bought it.

By Mr. Harkness:

Q. We have the general situation in this particular company where the assets have been all very well depreciated?—A. Oh yes.

Q. You have this large surplus so that you have in that case really an asset which is much greater than appears in the statement of assets and liabilities.—A. Tremendously in excess.

Q. It seemed to me perhaps in this committee we should go into the affairs of that company and learn more fully, possibly with some of the officials from the company, as to whether it is desirable for them to just keep mounting up that surplus, or whether it should be turned over to the consolidated revenue fund, or used for some purpose. It seems there is a large amount there which is a public fund sitting idle.—A. This is not my business, but may I interject that if you do go into Eldorado Mining and Refining we are hopeful that before this weekend we will be able to sign off the financial statements for the year ending 1955 and I would suggest you get your reference amended so that you can take this year's as well as last year's figures; both are good, but it is just so that you are not dealing with old stuff but are up to date.

Q. I am interested in the subsidiary, Northern Transportation, which you have down with a net profit of \$160,000 after providing for income tax and so forth; but they have also provided for—on page 99—a large amount of assets in the form of equipment and so forth which are now depreciated down to a very small amount. The reason for my interest in the matter is that everybody I know of who has dealings in the north country raises complaints on the rate charged by Northern Transportation. They maintain that the development of the north is being held up as a result of these high freight rates that are being charged, and that the one single factor which would do more to assist in the development of the north than any other is the reduction in freight rates. Transportation costs generally include the cost of flying people in, which does not come into this. Therefore, I would think that we might perhaps be well advised to look into this situation. We were going to do it some four or five years ago, and perhaps you will remember I raised the matter at that time. The session, as it happened, came to an end just about that period and we did not find time to go into it although we had actually called witnesses.—A. You have to bear in mind that rates for the Northern Transportation Company are those fixed by the Board of Transport Commissioners. They cannot charge more than the Board of Transport Commissioners authorizes. Secondly, it just occurred to me, that a little while ago when the house was setting up the Atomic Energy committee, the Minister of Trade and Commerce suggested that the committee review the activities of Northern Transportation.

Q. I also see that the other subsidiary, Eldorado Aviation Limited had expenses of \$470,000 in the year of which about \$445,000 was apportioned to the parent company and the balance to Northern Transportation. Has it any income apart from that derived from flying for these two companies?—A. No.

It has no real income otherwise; you must bear in mind they are frozen up in the north country for a very substantial portion of the year and it is really operating for the convenience of Eldorado.

Q. In other words, it is a crown company to take over the flying operations for Eldorado?—A. Yes. It is a subsidiary of Eldorado.

Q. Or is Northern Transportation a subsidiary which takes what you might call business out of the general public?—A. Yes. Northern Transportation of course existed before the government acquired Eldorado. Eldorado Aviation was created after the acquisition.

Q. It is in quite a different position then to the Northern Transportation?—A. Yes.

The CHAIRMAN: 91?

By Mr. Harkness:

Q. You were mentioning this before. What are the assets of this company?—A. The big assets are the \$10 million that the government has given it for capital.

Q. In addition to that the only other question is this reserve of \$2½ million?—A. Which they have accumulated, yes.

Q. That is why you say it is doubtful whether they should be charged income tax because there is a question of whether the excess of income over expenses should legitimately be looked upon as profit?—A. That is the point. In discussions on corporate tax between crown corporations and the income tax department, I am neutral, because I am auditing both. Therefore I am not well informed on the subject. I do not want it to be suggested that I am supporting one side or the other.

The CHAIRMAN: Paragraph 92.

By Mr. Harkness:

Q. This is another corporation which appears to have made large profits, has depreciated its assets to a very material state, and there is an asset which really does not show in the public accounts generally we might say.—A. It is not as bad as Eldorado. It is shown in public accounts as \$30 million; Eldorado is shown at something like \$8 million.

The CHAIRMAN: Paragraph 93.

Paragraph 94.

By Mr. Harkness:

Q. Did you audit these accounts this year?—A. The government of Canada now has no financial interest in this.

Q. That is why I was wondering whether you did audit them or not?—A. The act says all expenditures by the board shall be subject to the audit of the Auditor General—"shall be subject to the audit". The audit is being performed by the provincial auditor of Alberta. What I plan to do is simply examine his working papers and conclusions and so avoid a duplicate effort. I do not regard it as, strictly speaking, obeying the law, but it would seem to be the sensible thing.

Q. The dominion government has no interest in it?—A. No. If you were to open up the act you would delete that direction.

Q. Therefore you would not be bothered with it?—A. I do not think the taxpayers of Canada should have to pay twice by having someone go out to do that work.

By Mr. Kickham:

Q. As far as the St. Lawrence Seaway is concerned, the government loans the money and they have the obligation of paying interest on capital amortized over a period of years?—A. Yes. Last year they were just starting.

Q. But they are still obligated to pay interest?—A. Yes. They would not have it in that particular year because they just got going.

Q. Am I correct in that the amount of the loan to the board is \$215 million as the federal government's share?—A. I think your ultimate figure is right, but I have not any data with me here.

Q. What would be the amount of interest that the board would pay the government?—A. I do not have that with me.

By Mr. Hollingworth:

Q. Is it customary to pay about 3 per cent on an item like that, somewhat similar to the Canadian Farm Loan Board?—A. It varies. In the case of Central Mortgage and Housing Corporation, which is a big borrower, it is in the act that the rate approximate the going rate of government bonds being traded in the market. I think, rates to corporations fluctuate a little, there is no uniformity across the board as to the interest rates corporations will pay. The National Harbours Board pays one rate, the Farm Loan Board another rate, and the Central Mortgage and Housing Corporation another rate, and so on.

Q. Is it a matter simply of bookkeeping, and that the government makes available those funds out of the consolidated revenue fund?—A. Oh, no. The big advantage to a company is that it does not have to go out and float an issue and perhaps pay a higher price, because experience has always been that a guaranteed issue always has to carry a higher coupon than a straight government issue.

The CHAIRMAN: Paragraph 95.

By Mr. Holowach:

Q. We appreciated the explanation Mr. Sellar gave us before. Would he care to amplify it and give us a little more information. Are there any figures available with respect to the amount lost and sustained by the crown corporations who had no fire insurance coverage? Are there any figures available for that?—A. I cannot recall any. The record is good. There have not been any serious fires as far as I recall. Eldorado had insurance when it had a mill burn down. National Harbours Board has fire insurance and periodically a shed burns.

By Mr. Monteith:

Q. Is it just a matter of lack of uniformity?—A. Not that entirely because uniformity is not in itself the best thing in the world; but, what worries me is if there was a big loss, say in Canadian Arsenals and it became necessary to find the money all at once it would show up as a big item of expenditure in the public accounts because Canadian Arsenals has no resources other than what the government has provided. It seems to me there should be some plan whereby we can protect ourselves. You cannot treat everything the same. You might say in respect to the National Gallery, which is strictly speaking a corporation, that there would not be much sense in insuring the pictures. You would have to go and buy different ones. I regard it as a matter of executive policy rather than legislative.

Q. I think your observation is very sound, but it seems to me it is very good business to have coverage. What is the reason they do not take out fire insurance coverage?—A. The government has always taken the view, I think,

established by Sir John A. Macdonald, that because the government's risk are spread all over Canada we have the same diversion of risk as has an insurance company and therefore we can self-insure.

The CHAIRMAN: Paragraph 96.

By Mr. Harkness:

Q. Is there a list any place, and if so where can it be found, as to the company's holdings of cash or securities which make up this \$67 million in cash and \$96 million in government of Canada securities?—A. I have it here.

Q. Could you give it to us?—A. It is a fairly long one.

Q. Perhaps it might be put into the record?—A. Yes. I will give you the two largest amounts. The Canadian National Railways had \$46 million, National Harbours Board \$46½ million. The schedule now given totals more than the amounts stated in paragraph 96 because a further review increased "cash". As certain corporation accounts are audited by others, figures stated may be subject to adjustments:

Atomic Energy of Canada	\$ 3,443,000		\$ 3,443,000
Canadian Arsenals	12,785,000		12,785,000
Canadian Broadcasting	5,754,000	\$ 9,532,000	15,286,000
Canadian Commercial Corporation	9,325,000	189,000	9,514,000
Canadian Farm Loan Board	377,000		377,000
Canadian National Railways	18,036,000	27,972,000	46,008,000
Canadian National (West Indies)			
Steamships	540,000		540,000
Canadian Overseas Tele-			
Communication	310,000		310,000
Canadian Patents and Development	78,000	102,000	180,000
Central Mortgage and Housing	3,389,000	3,104,000	6,493,000
Crown Assets Disposal	1,971,000		1,971,000
Defence Construction	272,000		272,000
Eldorado Aviation	15,000		15,000
Eldorado Mining and Refining	5,160,000		5,160,000
Export Credits Insurance	416,000	12,053,000	12,469,000
Federal District Commission	816,000		816,000
National Battlefields Commission	27,000	5,000	32,000
National Harbours Board	5,505,000	40,908,000	46,413,000
Northern Transportation	2,446,000		2,446,000
Northwest Territories Power			
Commission	274,000	251,000	525,000
Park Steamship	1,000		1,000
Polymer	3,060,000	1,941,000	5,001,000
St. Lawrence Seaway Authority	407,000		407,000
Trans-Canada Air Lines	1,056,000		1,056,000
	<hr/>	<hr/>	<hr/>
	75,463,000	96,057,000	171,520,000

Q. Those are securities?—A. Securities and cash.

By Mr. Holowach:

Q. What happens to surpluses held by corporations? Are they deposited to the credit of the corporation in the bank or where?—A. It is held by the corporation, sir, and sometimes invested in securities and sometimes just put in the bank account. They need a certain amount for working balances.

The CHAIRMAN: We now have before us paragraphs 92-100 inclusive but they are just acknowledgments. I suppose there are no questions on these.

Before you go, Mr. Sellar, Mr. Applewhaite who is not here this afternoon left a question that he requested me to ask you. It is this:

Would it not be possible for the Auditor General when preparing his report to include in each paragraph referring to a specific transaction a cross-reference to the vote and/or the page of the public accounts where the item could be found?

The WITNESS: Mr. Chairman, the same question was asked several years ago by Mr. Brown, then member for St. John's, Newfoundland. I pointed out to him then, and my reply must be the same now, that I would be very pleased to meet this wish if it were practicable to do so. The trouble is that I do not see this big volume of public accounts until it is tabled in the House of Commons. This is a printing job that is not finished as a rule until after the house meets. To help out the Queen's printer I send my report down to him in the month of September and the small pamphlet which members of the committee have is printed and in my office not later than the 1st of November. If I were to do what Mr. Applewhaite wishes I am afraid I would be holding back publication of the public accounts.

An alternative that occurs to me would be this: that after the committee is constituted I could deliver to the secretary or to the chairman of the committee a listing of the various paragraphs in my report with cross-reference to where items in the public accounts could be referred to. If that would be of any assistance I would be glad to do that and it could be done quite easily.

The CHAIRMAN: I think that would probably be very useful and it would help us in following these paragraphs in your report.

Mr. THOMAS: Would it not be better if a copy of such a cross-reference were made available to all members of parliament rather than to just the members of this committee?

The CHAIRMAN: That would be a matter for the house. We are just dealing with the committee today.

The WITNESS: An alternative would be to deliver a supply of several hundred copies to the Minister of Finance and leave it to him to distribute as he thinks proper.

Mr. THOMAS: Yes, it would be better to do that than to confine them to members of the committee. By turning them over to the Minister of Finance they could be made available to the members of the house and to the members of the committee before the committee is set up. The committee would thus have a better opportunity to check your recommendations with the public accounts.

The WITNESS: I can do that very easily, sir. Of course, the alternative would be to have the Department of Finance consider the question of the size of this present volume and whether they have more stuff in it than they really need—whether its very size is conducive to confusion.

The CHAIRMAN: That is a different matter.

By Mr. Monteith:

Q. Before Mr. Sellar leaves the committee I would like to say that I am a little interested in what they call revolving funds. Have you any idea, roughly how many such funds there are in the financial set-up?—
A. No sir.

Q. Are there quite a number?—A. Oh yes. The number is growing every year.

Q. I am inclined to feel that the use of these funds tends to make it more difficult to discover the exact expenditures made by the government in any particular year. One revolving fund I am thinking of is the purchase account in the National Gallery. Take that as an example—there is an amount of \$800,000 put in there this year. That comes from the estimates and there is nothing wrong with that, but the amount need not necessarily be spent by the National Gallery in one particular year. As a consequence a true picture of the actual spending by all the various departments where these revolving funds are in existence is not easy to obtain. Am I right in this contention?—A. I would not call the National Gallery account a revolving account because all of it goes out and nothing comes back. If you take the Department of Transport stores account, which has about \$4 million in it for the procurement of stores, that is a different matter. When the department makes an issue of stores out of that account an appropriation is charged and the money goes back into the account. That is a revolving account. The really big one is the Department of Defence Production.

Q. When you say money goes back in, just how does that particular fund work? Do they get so much money to operate on?—A. I will take \$4 million as a figure—I may be out a few hundred thousand one way or another. The department is allowed at the end of the year to have inventories of stores purchased by means of the revolving fund up to a total of \$4 million, but not a cent more.

Q. Either that, or cash totalling \$4 million.—A. \$4 million is the maximum they can ever charge to that account and therefore if, at the end of the year, they have an excess of stores, that would be written off as expenditure, charged through an appropriation of stores issued. For that reason they keep their purchases within the \$4 million mark. That is a true revolving fund.

The real purpose of the National Gallery account is to avoid an appropriation expiring on March 31, because it may have to accumulate money before it can make a purchase. But as I say I do not regard that fund as a true revolving fund.

Q. To take this other fund—the 4 million—is there a vote originally, by parliament, to set up that fund?—A. In the case of the Department of Transport stores there is an act of parliament, but more often they are set up by a vote in the estimates.

Q. Is this \$4 million we are talking about an actual charge in the estimates for the year in which the fund was instituted?—A. No sir. It will be enacted when the Department of Transport can set up a stores account. And for the purpose of that account the Minister of Finance may provide from time to time a sum not exceeding \$4 million. It is really an advance not an expenditure. The expenditure is when stores are sold out of that account through an appropriation.

Q. Is that the same form as the R.C.M.P. account?—A. In principle they are of the same type. The R.C.M.P. account is set up by a vote in the estimates and controlled by the Financial Administration Act.

Q. All right. The sum of \$1 million in the R.C.M.P. account is actually the amount in the estimates in one year?—A. Yes sir.

Q. I see that they have to pay for supplies and so on. There is no income accruing to the R.C.M.P. at all?—A. Every time a section of the R.C.M.P., let us say, buys something from this fund the vote is charged with the amount of that purchase and the amount credited to the fund.

Q. The vote is charged?—A. Oh yes. Take the R.C.M.P. fund you have been referring to. If you look at page 93 of the public accounts you will see under schedule "B" it stands at \$202,000 at the end of the year.

Q. Yes. It stands at \$798,000?—A. No sir. That was the amount in the way of inventories at that time.

Q. Their actual money going into a separate fund and the minister only paying it out when they buy the inventory?—A. Yes sir, and the minister cannot advance any more than \$1 million.

Q. He cannot advance more than \$1 million at any time?—A. Not at any one time.

The CHAIRMAN: If there are no more questions, that completes the examination of the report of the Auditor General. I am sure, gentlemen, I shall be expressing the sincere opinion of the whole committee in thanking Mr. Sellar for the very interesting information and explanations that he has given us.

The WITNESS: I thank you, Mr. Chairman. I would just like to add one word. You may think that in my answers to your questions I was, sometimes, watering down my views. I still hold the views that I set out in my report, but I have always kept in mind that there are two sides to any question and that members of the committee are entitled to hear both sides. We in the Audit Office just want good government.

The CHAIRMAN: We appreciate that, Mr. Sellar. Thank you.

The committee will adjourn to the call of the chair after Easter.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament
1956

Government
Publications

CAI KC 19

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STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: CHARLES A. CANNON, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

TUESDAY, APRIL 17, 1956

THURSDAY, APRIL 19, 1956

WITNESS

Mr. K. W. Taylor, Deputy Minister, Department of Finance.

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Charles A. Cannon, Esq.,

Vice-Chairman: A. J. P. Cameron (*High Park*), Esq.,

and Messrs.

Anderson	Harkness	Monteith
Applewhaite	Henderson	Nowlan
Argue	Hollingworth	Pommer
Ashbourne	Holowach	Poulin
Balcer	Houck	Power (<i>St. John's West</i>)
Beaudry	Kickham	Proudfoot
Boisvert	Kirk (<i>Antigonish-</i>	Regier
Breton	<i>Guysborough</i>)	Rowe
Bruneau	Laflamme	Schneider
Buchanan (1)	Leduc (<i>Jacques Cartier-</i>	Stewart (<i>Winnipeg</i>
Cavers	<i>Lasalle</i>)	<i>North</i>) (2)
Cloutier	Maltais	Thomas
Denis	McGregor	Tucker
Fulton	McLeod	Van Horne
Goode	McWilliam	Weaver
Hamilton (<i>Notre-Dame-</i>	Menard	Zaplitny
<i>de-Grâce</i>)	Mitchell (<i>London</i>)	
Hanna	Mitchell (<i>Sudbury</i>)	

Antonio Plouffe,
Clerk of the Committee.

(1) To replace Mr. Balcom as of April 13.

(2) To replace Mr. Noseworthy deceased on March 31.

ORDERS OF REFERENCE

FRIDAY, April 13, 1956.

Ordered,—That the name of Mr. Buchanan be substituted for that of Mr. Balcom on the said Committee.

WEDNESDAY, April 18, 1956.

Ordered,—That the name of Mr. Stewart (*Winnipeg North*) be substituted for that of Mr. Noseworthy on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, April 17, 1956.

(7)

The Standing Committee on Public Accounts met this day at eleven o'clock.

The Chairman, Mr. Charles A. Cannon, presided.

Members present: Messrs. Cameron (*High Park*), Cavers, Cloutier, Hamilton (*Notre-Dame-de-Grâce*), Harkness, Holowach, Laflamme, Leduc (*Jacques-Cartier-Lasalle*), McGregor, McLeod, McWilliam, Ménard, Mitchell (*London*), Mitchell (*Sudbury*), Pommer, Poulin, Proudfoot, Regier, and Schneider.—(20)

In attendance: Mr. K. W. Taylor, Deputy Minister, Mr. H. R. Balls, Director of Financial Administration and Accounting Policy, Department of Finance.

The Chairman welcomed Mr. Buchanan who has replaced Mr. Balcom on the Committee.

The Chairman then referred to the decease on March 31st of one of the members of the Committee in the person of Mr. J. W. Noseworthy, member for Toronto (*York South*).

On motion of Mr. Cameron (*High Park*), seconded by Mr. Harkness,

Resolved,—That an expression of sympathy be forwarded to the members of Mr. Noseworthy's immediate family.

The Committee resumed consideration of the Auditor General's Report on Public Accounts (1955), more particularly paragraphs 4, 5, 8, 9, 10, 58(c), and 69 thereof, which had been referred to the Department of Finance.

Mr. K. W. Taylor, Deputy Minister of Finance, was called and questioned. He was assisted by Mr. H. R. Balls.

At 12.40 o'clock, Mr. Taylor's examination still continuing, the Committee adjourned until Thursday, April 19 at eleven o'clock.

THURSDAY, April 19, 1956.

(8)

The Standing Committee on Public Accounts met this day at eleven o'clock. Mr. Charles A. Cannon, Chairman, presided.

Members present: Messrs. Applewhaite, Ashbourne, Boisvert, Breton, Buchanan, Cavers, Fulton, Harkness, Henderson, Hollingworth, Laflamme, Leduc (*Jacques-Cartier-Lasalle*), McGregor, McLeod, McWilliam, Ménard, Mitchell (*Sudbury*), Poulin, Power (*St. John's West*), Hon. Mr. Rowe, Schneider, Weaver, and Zaplitny.—(24)

Also present: Mr. W. Benidickson, Parliamentary Assistant to the Minister of Finance.

In attendance: Mr. K. W. Taylor, Deputy Minister, Mr. H. R. Balls, Director of Financial Administration and Accounting Policy, Department of Finance.

The Committee continued its study of the Auditor General's Report on Public Accounts (1955), in particular paragraphs 95 and 96 thereof.

Mr. K. W. Taylor was called and questioned. He was assisted by Mr. H. R. Balls who answered specific questions referred to him.

Mr. Taylor's examination was concluded and he was retired.

The Chairman asked the members of the Sub-committee on Agenda and Procedure to kindly remain for a scheduled meeting immediately following adjournment.

At 12.15 o'clock, the Committee adjourned to the call of the Chair.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

CORRIGENDUM

In Minutes of Proceedings and Evidence, No. 4, page 111, the following headings should appear at the top of the table showing Crown Companies' holdings of cash and securities:

CASH—SECURITIES—TOTAL

EVIDENCE

APRIL 17, 1956.

The CHAIRMAN: Gentlemen, we have a quorum. Since our last meeting we have had to deplore the loss of our colleague and member of the public accounts committee, Mr. Noseworthy. He was a valuable and hard working member of the committee and we shall certainly miss him in our deliberations.

Might I have a motion for a resolution of sympathy to be sent to his family? Mr. Cameron, will you move that?

Mr. CAMERON (*High Park*): Yes, I am very glad to.

Mr. HARKNESS: I will second it.

The CHAIRMAN: Seconded by Mr. Harkness.

Motion agreed to.

The CHAIRMAN: Mr. Balcom, who is absent, has been replaced by Mr. Buchanan on the committee. We welcome Mr. Buchanan and look forward to working with him here.

We have with us this morning, gentlemen, Mr. K. W. Taylor, the Deputy Minister of Finance, and Mr. Balls, the director of the financial administration and accounting policy division of the Department of Finance.

As you will recall, while we were hearing Mr. Sellar the Auditor General, when answering several of the questions, he suggested that we had better ask them of the Deputy Minister of Finance.

Mr. Taylor and his assistant are here this morning for the purpose of giving these answers.

Mr. Taylor, on page 14 of the official report of the proceedings of this committee we find a question by Mr. Hamilton concerning paragraph 4 of Mr. Sellar's report. Mr. Hamilton's question specifically deals with the \$3.2 million which are listed as miscellaneous income. Have you any answer to give us on that, Mr. Taylor.

Mr. K. W. Taylor, Deputy Minister of Finance, called:

The WITNESS: Yes, Mr. Chairman. In any tabulation there will almost inevitably be a miscellaneous category. On page 25 of Public Accounts, to which Mr. Sellar referred there are listed \$3.2 million of miscellaneous non-tax revenues. Later, on page 85, that same \$3.2 million is broken down by departments.

I have still further detail on those departmental totals which are scattered through various pages in Part II of the Public Accounts. For example, taking the first item on page 85, there is roughly \$49,000 of miscellaneous in the Department of Agriculture. The detail of that is on page A-49 of the Public Accounts; and it shows that the bulk of that is made up of miscellaneous fines and forfeitures, about \$3,000, refund of gasoline tax, \$17,000, a small excess of revenue over expenditure in operating a boarding house at the Swift Current experimental farm, \$8,000 and so on.

Details for each department are available at some place in the latter part of the accounts.

I just mention the larger items; that is those over \$100,000. For example in the Department of Finance there is \$207,000 of unclaimed bank balances

received from the Bank of Canada. As you know, after a certain time, I think it is 10 years, unclaimed balances are transferred to the Bank of Canada from chartered banks, and after another period of years, if they are still unclaimed, they are transferred to the Receiver General.

Then, there is nearly \$1,400,000 in national revenue. Almost all of that is customs and excise seizures, fines, forfeitures, and recovery of law costs.

In trade and commerce there is \$234,000 received from the Export Credits Insurance Corporation in regard to export credits which are handled under section 21 of the act. That is where the government guarantees the account. Through all these miscellaneous items, fines, forfeitures, and seizures add up to a substantial amount. And as I said before, the refund of provincial gasoline taxes used in government vehicles, and that sort of thing.

The CHAIRMAN: Are there any further questions?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Have you broken down the \$439,000 of National Defence, Mr. Taylor?

The WITNESS: Yes, sir. N-82 is the page number. \$312,000 of special pension contributions made under Parts 1 to 4 of the Defence Services Pension Act. That is on page N-82 of the big volume.

Payment for damages to barrack, camp and hospital equipment, \$17,500.

Mr. HARKNESS: This would be recovered from soldiers for breakages?

The WITNESS: I presume so, yes.

The purchase of discharge, \$8,000.

The pension contributions under these different parts of Defence Services Pension Act, \$312,000.

Premiums on foreign exchange transactions, \$36,000.

And sundries, \$58,000 which I cannot break down further, but which can be obtained from the detailed books of account.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. In other words, while the consolidated statement lumps these amounts, if you dig, in sufficient detail, into the accounts of the government departments, you will normally find them there?—A. Yes. At the end of each of these alphabetically numbered sections of departments, at the end of revenue you will always find the detail of the miscellaneous revenue.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Thank you.

The CHAIRMAN: The next item is on page 21 of the printed minutes of the proceedings, and concerns paragraph 8 of Mr. Sellar's report.

Mr. LEDUC (*Jaques-Cartier-Lasalle*): What page?

The CHAIRMAN: Page 21 of the printed minutes of the proceedings.

Paragraph 8 of Mr. Sellar's report is concerned with the setting up of a reserve.

Can we hear you on that, Mr. Taylor?

The WITNESS: Yes, Mr. Chairman.

This is a general reserve for possible losses on the ultimate realization of active assets. It is not a reserve for bad debts in the sense that the department, or the minister, have gone through all the amounts owing to the government and made a list of those that are of doubtful value, or unlikely to be collected. In other words, it is not a reserve for bad debts, against accounts receivable. It is more analogous to the general reserve which corporations frequently set up, general reserve against fluctuations in value of inventory, or general reserves against possible future fluctuations in the value of investment holdings, and that sort of thing.

Among our active assets, you realize, we have a great many loans to national and provincial governments. We have loans to other organizations, advances

to crown companies and so on. The amount that will ultimately be realized may depend upon a great variety of circumstances. Some of these debts are from time to time subject to negotiation.

We do transfer in any given year to the list of inactive assets those debts that are not being serviced by the debtor. You will see, for example, we have transferred the loans to the three governments which, at the present time, are not paying the interest or principal. That is, the moneys we had loaned to Greece, Rumania and China have been transferred to the inactive account. That does not mean, of course, that they have been written off, or that we regard them as bad debts.

The Greek government has not paid any interest or principal on this debt of some \$6 millions odd since about 1930. The Rumanian government continued to service its debt to us, with some interruptions, up until October, 1939, but we have had no payment from Rumania since then. In other words, there are in the government's list of assets a number of accounts where we are not sure that we will collect in full.

The Minister of Finance has a duty under legislation to give as true and accurate a picture of the government's assets as possible, and in the last 10 years it has become the practice to set up from time to time certain reserves which are not against particular assets, but are against the whole corpus of the government's assets.

I think Mr. Sellar covered pretty well the history of the build-up of this reserve.

It was started in 1940, and over a period of 15 years \$675,000,000 has been credited to this reserve for possible losses on the ultimate realization of assets. In the same period of years there has been charged some \$178,000,000, always, of course, with parliamentary authorization—to this reserve, leaving a balance now in the reserve of \$496,000,000.

By Mr. Harkness:

Q. At what point, Mr. Taylor, would this \$178,000,000 be charged against this reserve?—A. For instance, in 1946-1947 parliament authorized the writing off of certain advances made during the war to various defence plants totalling \$21,000,000. Some of these were crown companies; I think they were all defence plants; in some cases they were disposed of for less than the investment which we put into them; in some cases they were crown companies which were wound up, and the net loss was written off in this way.

In 1947-1948 there was a general settlement with the four western provinces covering their treasury bill indebtedness which was built up during the difficult years of the 1930's, and a total sum of \$55 million was written off as follows: \$5½ million to Manitoba; \$36 million to Saskatchewan; \$5¼ million to Alberta; and \$8½ million to British Columbia, making a total of \$55 million written off for indebtedness which was then cancelled.

The only other major item was in 1953-1954 when parliament directed that the deficit in the old age security fund should in that year be charged to this reserve against the active assets, to a matter of \$99 million. But since that time as you know, the deficit in the old age security fund has been taken into the expenditures in each succeeding year.

Q. Is there any definite basis upon which the amount of this fund, or the amount which it put into this fund is used to determine what the amount should be?—A. There is no mathematical formula. In the first seven years we put in \$25 million a year; and after the war when we were making very large advances for a considerable variety of purposes to foreign governments, the amount was stepped up to \$75 million a year for the next six years. Then,

in 1953-1954, a further \$50 million was added, making a total of \$675 million. The appropriate amount is a matter of judgment.

I think the ministers—there have been three ministers involved, the Hon. Mr. Ilsley, the Hon. Mr. Abbott, and the Hon. Mr. Harris, have set up what in their general judgment, has been an appropriate figure. The total amount now runs just under 7 per cent of our active assets, and that is felt to be an adequate reserve. All these things are completely incommensurable. Just after the war it was a matter of judgment as to how many of the European governments would get back on their feet and be able to service these loans. Actually all of them have. You will recall that for a couple of years Czechoslovakia was in default on the loan we made them, but after two years they resumed servicing and are now up to date again in the payment of interest and principal on these loans.

Q. This seems to be a fund in which money is put more or less when there is a surplus and if there is no surplus then nothing is put in.—A. Actually from 1941 to 1946 inclusive—when we had a deficit there were six years when we put in a total of \$150 million.

Q. On the other hand \$25 million a year was being put in.—A. Yes.

Q. That was being put in, in the anticipation that there would be losses, and this was set up to cover them.—A. Yes.

Q. And since that period it has worked much on that basis?—A. It was stepped up to \$75 million at a time when we were making very large advances to various foreign governments.

Q. Then, on the other hand the fund has been used to cover deficits on things like the old age pensions. Is that a proper use, do you think of a fund, or a proper use to make of a fund of this kind?—A. The old age deficit, under the statute, was covered by a loan from the Minister of Finance to the old age security fund; and in the first two years there was some uncertainty as to the way in which the fund would work out.

A deficit of some \$99½ million was accumulated. The Minister of Finance in his budget speech of that year announced that in the future he would recommend to parliament each year that the deficit for the year would be charged to the expenditures for the succeeding year. In the meantime he thought it appropriate to recommend to parliament that the accumulated deficit be written off. From a bookkeeping point of view it did not make very much difference whether it was charged to expenditures in that year or whether it was written off against the reserve against active assets.

Q. The general effect of these reserves is to put the Minister of Finance in a position where he can take a certain amount out of it, if he happens to be short for a particular purpose such as the old age pensions in one case, or on the other hand he can put money into it if he wishes to reduce what would otherwise look like an unwieldy surplus, too large a surplus.—A. He can only take money out by means of a formal act of parliament. It actually appears in the supplementary estimates, and it appears in the appropriation act. The sums placed in the reserves have always been reported to parliament, but it does not require a formal act of parliament to increase the reserves; but they have always been referred to in the budget speech and have always appeared in the public accounts. The general policy has been to build up these reserves to a level which is a matter of judgement, and which seems to be not an unreasonable amount against a very varied list of assets.

By the Chairman:

Q. Is it not a fact that under section 63 of the Financial Administration Act (Chapter 116 R.S.C. 1952) the minister, subject to the regulations of the Treasury Board, may establish such reserves with respect to assets and liabilities as in his opinion are required to give a true and fair view of the financial position

of Canada?—A. Yes sir, that is in section 63 of the act. And the Minister of Finance would not be giving a true picture of our assets and liabilities if he had no reserves at all. Experience has shown that we have had losses on ultimate realization; for instance, the western treasury bills; and in the matter of the Greek-Roumanian loans, the amounts on our books now are not the same as the amounts originally loaned, because there were a number of compromises made in the 1920's by way of settlement by means of negotiations between Canada and the Roumanian government.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. In that connection has the department ever made any attempt to assess its own expectancies of repayment of these outstanding loans and advances to foreign governments?—A. In one sense we expect to realize in full. On the other hand we can well expect that political and international conditions may arise which may make it impossible to collect. In connection with the Roumanian loan, for example, we have had no communications with the Roumanian government for obvious reasons in the last fifteen years; and in connection with the Greek loan, we have had conversations within the last two years reminding the Greek government of their obligations which they admit. They do not deny their obligation, but the Greek government has informed us that they are not in a position to pay at this time.

In international and inter-governmental relationships the re-writing of a loan is sometimes a matter for political and economic negotiation, and this reserve is an attempt to indicate in a general way that we could have losses.

The reserve is of some importance I might say, on those occasions when we have borrowed funds in New York. We have not borrowed funds in New York in any volume in recent years; but after the war we did place a number of loans in New York, and I think that the investment houses there would have expressed some concern at the carrying of all these items as assets with no reserves at all.

Q. You say it is about 7 per cent?—A. Of our active assets.

Q. Does that indicate the department's expectation or the minister's expectation that about 7 per cent of these assets across the board eventually will turn out to be non-collectable or poor?—A. No. It is purely a general reserve to give a conservative and prudent view of our assets.

Q. Is this rather unusual feature defined in federal government accounting? I do not mean Canadian government accounting, but generally federal government accounting?—A. Perhaps Mr. Balls will answer your question.

Mr. H. R. BALLS (*Director of the Financial Administration and Accounting Policy Division, Department of Finance*): Mr. Chairman, I think we could say that the whole concept of the government having a statement of assets and liabilities is rather unusual. Very few governments do publish as complete a statement of assets and liabilities as the government of Canada; but we have tried to show on our statement the assets and liabilities, our financial assets; and as Mr. Taylor has said, since 1940 we have had in association with the statement of those assets, a reserve making some provision for possible losses on those assets.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): How long have we had a statement or almost a balance sheet of the government?

Mr. H. R. BALLS: I think there has been a statement of assets and liabilities since Confederation. But the statement in its present form dates essentially from about 1920, when I think the idea of setting up a statement of gross liabilities which includes our unmatured debt, our current or demand liabilities and the other liabilities we have in connection with insurance pension and guarantee accounts were shown offset by these assets which were in the form

of cash or which could be readily converted into cash. In other words, loans and advances we could expect to realize on.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. So the statement in its present form came into existence in 1920?

Mr. TAYLOR: It was in Sir Henry Drayton's budget.

Q. This provision of reserves came along about twenty years later in 1940?

Mr. H. R. BALLS: Yes.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. For the information of the committee I was trying to make a calculation. Perhaps you could help me with it. In the years in which we have deposited, how much was added to the reserves for the overall deficit, and in the years in which we have had a surplus, how much was added? It seems to me roughly that there was around \$100 million to \$150 million added in the deficit years, and about \$500 million in the surplus years.

Mr. TAYLOR: That is correct. There was about \$150 million added in the deficit years, and \$525 million added in the surplus years.

Q. So while there might be some measure of difference of opinion as to why it was done, one could say that the surplus in most of the past ten years has been substantially reduced through the operations of that need for a credit—not a need for a credit, because obviously on the basis of operations so far there was no need for such credits; but that the surplus has been substantially reduced as a result of the government's decision to make credits to this reserve.—A. Yes. In this case the Minister of Finance in each budget speech—and I think I have gone through all of them in the last couple of weeks—has always in his budget speech referred to the fact that he was adding \$25 million or \$50 million or \$75 million to the reserves against the active assets, and that of course has reduced the surplus or increased the deficit for the year by the amount so appropriated.

By the Chairman:

Q. Mr. Taylor, is it not good financial practice for any organization, whether it be a private company or a government, to add more to reserves of this kind in good years than in bad years?—A. It is very common in financial companies to set up reserves against possible fluctuations in the future value of their investment portfolio. That does not mean that they believe that their bonds are going to go down, but it is an attempt to prevent either a sudden increase or sudden decrease in the value of their whole portfolio distorting the profit and loss statement for that particular year.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. To return to the Chairman's observations and question for a moment: is it actually prudent practice, or sound business practice to have credits to reserves such as this fluctuate in relation to the financial picture in a good year? The Chairman indicated that he felt that it was sound business practice. But speaking from my own perhaps limited experience in business accounting, it seems to me that the reserves and credits thereto are expected to bear some relationship to something, and that "something" is not the financial position of the company at a given year, but what its expectation is of bad debts and what it is going to have to pay.

The CHAIRMAN: Do you not think that the financial position of a company in any given year is at least a factor to be taken into consideration in establishing these reserves?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): No, not in any corporation with which I have been concerned. It has definitely not been the way.

The CHAIRMAN: We have had different experiences.

The WITNESS: These are not reserves for bad debts. These are reserves against possible fluctuations in value. The government may not sustain an ultimate loss in our active assets. The amount of course has been in round figures. They are not the result of a complicated mathematical calculation. The \$25 million was built up each year at the time when we advanced quite substantial sums to defence plants and crown corporations and we stepped it up specifically when we were making very large loans, well over \$2 billion to various external governments such as the United Kingdom and a variety of European and Asiatic governments. But in recent years we have been making no such advances, or negligible advances, and when we got up to around the 7 or 8 per cent level, as a matter of judgment the minister took the view that it was no longer necessary to add to these reserves, and that we had adequate reserves here to give a reasonably true and accurate picture of the net position of the government's assets and liabilities.

By Mr. Harkness:

Q. The fact that there is no definite basis on which funds are put into this account, and no really very definite basis on which they are taken out—they may be taken out for various reasons, losses by crown corporations, let us say, or of assets which are sold at less than cost or the old age pension, it would appear that funds might be taken from this account for any purpose. Therefore you have two great uncertainties in connection with it: first, the matter of how much is put in, and second, what it is taken out for; and as a result it seems to me that the existence of this fund and the purpose of the way in which things are put into it, and in which things are paid out leaves you in a position that it is difficult to keep up a true picture of the financial position of the country.

As Mr. Sellar when giving his evidence at page 22:

(Mr. Sellar) We have to be fair to the Minister of Finance. He says: "I cannot disclose in print particulars of the assets which I regard as perhaps doubtful accounts." He said that he cannot particularize and he has a point there. But I do think, inside this room or by letter, he should tell me how he calculates it so that when I am certifying the financial statement I do not need to automatically qualify as I am now.

Then I went on to ask him:

(*By Mr. Harkness question*) In other words if there were more information you could give a truer picture of what the contracts actually are?—A. Yes, whether it is fair or not.

In other words, the way in which this thing has been run has put the Auditor General in a position where he says that he just automatically qualifies it because he does not know what the situation is.—A. We have had no such discussions in recent years with the Auditor General's office on this account. I know I am right when I say it has not been raised formally with me since I became Deputy Minister. There were discussions between Mr. Sellar and Dr. Clark back in the war years and just after the war, and the views which Dr. Clark then expressed were those which I have expressed to the committee this morning, that this was a matter of judgment, an attempt to give a more accurate statement of the values of the government's active assets.

In reply to Mr. Hamilton's earlier question, Mr. Balls who is our expert in accounting tells me that it is rather unusual for a company in a year in which it is making a loss to set up a general reserve against possible losses arising from fluctuations in the value of inventories or portfolio investments,

but that it is not uncommon when a company has had a good year to establish a round figure of reserves against possible fluctuations in the value of its portfolio.

In the case of bad debts, that is a matter where the accountants and officers of the company go over the whole list of accounts receivable and make various estimates of items which are of doubtful value.

By Mr. Leduc (Jacques-Cartier-Lasalle):

Q. Could this be called an appreciation reserve, appreciation of assets, to appreciate the probable losses, and you would make your recommendation to the Finance Department and the minister will state what amount he should put in his budget?—A. If we had no reserves, and we finally came to an actual realization of loss of let us say \$50 million or \$75 million, or any other figure, then to show correctly our position we would have to charge that to that year's accounts. That would not be quite accurate, because that loss might have been building up over the previous three, four, or ten years. A loss of that sort would be charged to this reserve rather than to an expenditure, and that would, I think give a more accurate picture of the financial operations and position of the government.

Mr. HARKNESS: I agree there should be a reserve. What I tried to get at originally was, on what basis the reserve was calculated, and there does not seem to be any definite basis. I wonder whether the Department of Finance privately has a base point and makes some sort of calculation as to how many of the various debts they are likely to be unable to collect, what amount of loss there is likely to be in crown companies, and what amount of loss there may be in certain other ways?

The WITNESS: No, I do not think so. I have to go back beyond my own knowledge, because I joined the department only in 1947. At one time we had no reserve; then the reserve was built up in moderate amounts. As we extended our volume of active assets through our large post-war loans, we accelerated the building up of those reserves, and when it reached a figure of around 7 or 8 per cent, I recall Dr. Clark taking the view that that was now probably an adequate reserve. It is a matter of judgment.

Mr. LEDUC (*Jacques-Cartier-Lasalle*): Are we in a better position to state what would be the percentage than the finance minister, or the officials of the department?

The WITNESS: Far be it from me to pass judgment on the members of this committee.

Mr. HARKNESS: No, I do not think we are in any position at all to say what it should be.

By Mr. Leduc (Jacques-Cartier-Lasalle):

Q. We will have to take your word for it.—A. I want to make it quite clear that every single move of this reserve account has been a matter of public record, a statement in the budget speech and a statement in the Public accounts. For charges against the reserve there have been formal appropriations placed before parliament, and adopted in committee and passed.

Q. You will know later on if the percentage is right?—A. Yes.

Q. You cannot tell right offhand if the percentage is right?—A. No.

Q. We will know later?—A. Take an extraordinary case; if the whole of western Europe was overrun from the east, we would have to write off more than \$400 millions; but that is an event that we do not contemplate.

By Mr. Harkness:

Q. What I think is rather peculiar about the account, is that it seems to be sort of a grab-bag against which you can write off anything.

This old age pension deficit we have written off against this would not seem to me to be a very good general method of government financing.—A. It was carried as an active asset.

Q. Why was it carried as an asset when it was a deficit?—A. Because it was—in accounting terms—something that was owed to the Minister of Finance by the old age pension fund.

Mr. CAMERON (*High Park*): And, perfectly proper to charge it against this reserve that had been set up. I have been listening for some time, and I think, on the record, that Mr. Harkness is putting in innuendos which are entirely unfair, that this is a sort of grab-bag. He has mentioned that this is something that the minister can play fast and loose with.

The old age pension moneys have been paid by the Minister of Finance—was a debt owing to him. It was carried as an asset, and he decided that it was not an asset that should be carried, and he wrote it off. Then, in future years he decided it would be paid out of cash revenues of the country. It meant, in that particular year that he wrote it off, that there was a greater surplus, probably, than there otherwise would have been, because if he had written it off as an expenditure the revenue would have been much less.

I think it is rather an unfair innuendo, and I do not think Mr. Harkness really wants to put it on the record.

I am asking him now to remove any innuendo of such kind, because I think it is entirely improper.

Mr. HARKNESS: I see no innuendo in it at all. What I am trying to do is, get at what the reasons for this account are.

Mr. CAMERON (*High Park*): Well, the innuendo is this—

Mr. HARKNESS: And what it can be properly used for.

Mr. CAMERON (*High Park*): You said on several occasions that this is something that can be taken in and out at the pleasure of the minister. It is nothing of the sort.

You go into a business proposition, you invest a certain amount of money, and then as a businessman you sit down and say, "Well, a reasonable reserve against this amount of money is so much," and you set it up, so that if you do happen to have a loss, or the value of your assets depreciates in the future years, then you can say, "We will take that from this reserve. We will not need to show a terribly bad year. We will not need to show that because we have written this off as current expense".

It is something that has been built up as the deputy minister, Dr. Taylor, has said, over the years, and should be charged off in that way. I think it is perfectly proper, and I for one in expressing my own opinion resent the sort of atmosphere that you are creating about it.

Mr. HARKNESS: I do not think I am creating any atmosphere about it. I think you are creating the atmosphere in your own mind in mentioning it.

Mr. CAMERON (*High Park*): I am just taking your own words.

Mr. HARKNESS: No, it seems to me that it puts the Public Accounts in this position; if there happens to be a deficit in this particular case—it was in the old age pension amounts—if there happened to be a deficit in some other way, it might be through the Prairie Farm Assistance Act, or something like this, then the Minister of Finance, in order to balance his budget when he presents it can just take so much out of this fund and use it to cover what would otherwise be shown—

The CHAIRMAN: That is an innuendo, Mr. Harkness.

Mr. HARKNESS: —what would otherwise show in his budget as a deficit.

The CHAIRMAN: Mr. Harkness, that is an innuendo and is not fair.

Mr. HARKNESS: No, it is not an innuendo.

The CHAIRMAN: You are making innuendos.

Mr. HARKNESS: It is a straight statement of fact.

The CHAIRMAN: It has been explained by the deputy minister several times that the amount of this reserve is a matter of judgment. As Mr. Leduc outlined a few minutes ago, we cannot be sure that the amount that is set aside is exactly the right amount, but the future will inform us of that. It is the same as any reserve that is set up by any company. You cannot be sure that the amount you have set up is absolutely correct to the last cent. You use your own judgment; and the events will eventually show whether the judgment you used was good or not. I think that is the situation.

Mr. HARKNESS: Well, it is a situation that appears to me to be such that it can be put in whenever, in the judgment of the Minister of Finance, he thinks it is desirable to put it in, and it can be taken out, apparently, or used for almost any purpose.

The WITNESS: May I comment on that? It can be used for any purpose which parliament directs. But, it would be a little peculiar, shall I say, for the minister to recommend to parliament that it be used for any purpose. Its use will be recommended when we experience an actual loss on something we are now carrying in our books as an active asset.

The CHAIRMAN: That is what reserves are set up for, after all, are they not Mr. Taylor?

The WITNESS: Yes.

By Mr. Regier:

Q. Mr. Chairman, I would like to ask Mr. Taylor, is the balance sheet ever subject to the survey of parliament? I mean, does parliament ever make any decision in regard to the balance sheet, or how it is made up, in any way, shape, or form? I thought that we dealt only with revenues and expenditures in the house?—A. Well, sir, the government can make no loans and advances without authority from parliament, and the government cannot write off any debt owing to government without the authority of parliament.

Q. I understand that.—A. The balance sheet is the report by the Minister of Finance on the financial status of the federal government. In that report he lists all the assets—he does not list them all, because, as you know we do not carry as an asset any of our federal buildings or public works. They are always written off as an expenditure at the time that it is incurred. That has always been the case. We list the assets, and we list all the known liabilities that we have.

In this case, the Minister of Finance says, “Well, I have active assets of \$7 or \$8 billion. I cannot say any of them are bad. But, after all, there may be some losses, and we have set up this reserve against the active assets”.

Q. A few sessions ago there was a good deal of publicity in the newspapers given to some things that were said in this committee. As I understood it, the newspapers were completely in error, in that no actual expenditure is made for these reserves. It says here, right in section 8, “because no actual cash outlay takes place.” Therefore I feel that any hint, even, that a surplus in the government, or a deficit in the government has anything to do with the reserves, is completely misleading.

Now, am I right in that construction? I understand Mr. Sellar to say that this was a bookkeeping figure used only in the striking of the balance sheet, and it had nothing whatever to do with the revenues or expenditures. There-

fore, a surplus or a deficit in a year's operation has nothing whatsoever to do with this?—A. That is correct, sir. There is no cash expenditure here. It is what Mr. Sellar described as a purely bookkeeping entry.

Q. It is merely an adding on to our liabilities. Call it arbitrary if you like. Is that not correct, an adding on to, when we make our balance sheet?—A. The amount we put in there is charged to expenditure in that year. It is a charge to expenditure, and it increases our net liabilities by decreasing our net assets.

Q. Where does that expenditure appear in our estimates?—A. It appears—

Q. As an item as such?—A. No, it does not appear in the estimates. It is a statutory charge under section 63(2) where the minister has power to set up such reserves as he thinks are desirable to reflect the true value of government assets.

The CHAIRMAN: That is 63(2) of the Financial Administration Act?

By Mr. Regier:

Q. Then there is actually an outlay authorized by parliament?—A. It is authorized by parliament in these general terms that the Minister of Finance is empowered, or directed to set up such reserves as he thinks are appropriate to reflect the true value of the government assets.

Q. Those newspapers were right in that there could be a reduction of the actual surplus?—A. Oh, yes. If there had been no reserve set up at all for example, in 1954, when we showed a surplus of \$46 millions on the year's operations, after charging \$50 million to this reserve, there would have been a surplus of \$96 million in that year. There was no transfer of cash, it was just a bookkeeping entry.

The CHAIRMAN: No actual expenditure of money, simply a transfer from one account to another?

The WITNESS: Yes.

By Mr. McLeod:

Q. Mr. Chairman, in connection with the statement of assets and liabilities, some of our assets, of course, are in crown companies; some of these companies have built up quite large cash reserves. At what point, or at what stage are these reserves going to be turned back to the government? Is there any regulation governing that?—A. Yes.

The CHAIRMAN: That matter will be dealt with under another question that we have in reserve for Mr. Taylor a little further on.

Now, do you want to ask a question?

By Mr. Mitchell (London):

Q. I was going to ask the question, what is the history of this particular fund in so far as the crown corporations are concerned? We have been talking about international dealings, but we have not mentioned specifically the losses, if any, that have been paid out to cover crown corporation deficits.—A. If a crown company incurs a loss, such as the C.N.R. did a year ago, we actually pay out the deficit. That is an appropriation by parliament and has nothing to do with this amount at all. That is a current deficit of that year and it is paid to the C.N.R.—some \$25 millions, I believe it was in round figures a year ago. What is charged to this account, or has been charged to this account are losses on investments we have made in crown companies when the companies were finally wound up, or when there was a reconstitution of the capital structure.

In fact there have only been two crown companies as such in that category. There was Melbourne Merchandising, which was born during the

war. It was a corporation set up to buy raw wool for defence purposes. When it was finally wound up, there was a loss of about \$700,000. The company was dissolved, the charter was surrendered, and when we took over their remaining assets, they were \$700,000 short of the advances we had made to them. As you know, we bought wool at world prices and we sold the wool to the manufacturers at prices consistent with the price ceiling.

The other one was in 1947. At the end of the war, there was a reorganization of the Polymer Corporation. In that reorganization, \$1,043,000 was written off the government investment in Polymer at that time.

Q. Those are the only two cases?—A. They are the only two cases of crown companies.

There were \$20 millions written off from time to time on advances made to corporations for defence works, or defence capital expenditures which, at the end of the war, were found to have a sale value of considerably less than the government put into them. There was about \$22 million or \$23 million written off by act of parliament in 1946-1947-1948.

Q. So, in other words, the only amounts dealt with by this fund, as far as either crown corporations are concerned, or these war plants, totalled approximately \$25,000,000?—A. Yes.

By Mr. Holowach:

Q. There are one or two things that are not clear to my mind, and I would just like to get the picture straight.

Am I right in assuming that the allocation to reserves is simply a non-cash transaction; is that correct?—A. Yes, that is correct.

Q. Now, there does not appear to be any formula used in the building up of these reserves, is that correct?—A. There is no precise, mathematical formula.

Q. Now, during the year 1954-1955 Mr. Harris made no allocation to reserves?—A. Correct.

Q. What explanation do you give for that? Is there any particular reason for that one particular year being without an allocation allotted to the reserves?—A. There was none that year, and there was none this year either. The reason being that the reserves now are at roughly 7 per cent. They are deemed to be adequate. We have not increased our assets in this field. We have been making no significant loans or advances to either companies or provincial governments, or foreign governments. Therefore, since the total is not going up, it does not seem necessary to provide a further reserve.

By Mr. Regier:

Q. Is the consent of parliament necessary to write off any reserves against assets which are considered to be obsolete?—A. Oh, absolutely. Nothing can be written off our assets without the consent of parliament.

Q. In other words, that money goes to parliament twice, is that right? In the first place, when it is put into the reserve, and again when it is taken out of the reserve?—A. Yes. I do not want to be misleading. When it goes into the reserve, there is no specific action of parliament. It is done by the minister under the general powers of the Financial Administration Act. When it comes out there has to be a specific vote, correct to the last dollar, as to the amount that is being taken out.

By Mr. Holowach:

Q. On the basis of your explanation, I would gather that reserves can be used to hide embarrassingly large surpluses, is that correct?—A. Well, I have no right to resent anything here, Mr. Chairman, but the word "hide"

is not correct, in the sense that the minister has always stated explicitly in his budget speech the amount that he is proposing to appropriate to this general reserve, and it is specifically set out in the Public Accounts for the year.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): It would be correct, Mr. Chairman, and perhaps the witness can confirm this, to say that use of credits to the reserve would automatically result in the reduction of a surplus?

The CHAIRMAN: The witness already said that.

By Mr. Hamilton (*Notre-Dame-de-Grâce*):

Q. In any one given year?—A. Oh, yes.

Q. It is purely whether we like the word "hide" or not, which seems to be at issue. I can understand that that would be a point of issue.

The CHAIRMAN: What did you say about the word "hide"?

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I said it seemed to be purely the use of the word "hide" which is at issue here. I can quite easily understand why it would be an issue.

The CHAIRMAN: I do not think it is an issue. I think it is an entirely improper word. As it has been explained by the deputy minister, everything is done aboveboard. The minister in his budget speech says exactly how much he is going to put into this reserve, and there is no hiding at all. There is no issue as to the word "hide", and it is wholly improper.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): I think it is a proper word, and that makes it an issue, Mr. Chairman. Perhaps we can just let it rest at that.

Having said that, and looking at this reserve, as I see it, there are two factors to it which have caused some comment in the committee. The first is the rather indefinite way in which the amounts seem to be arrived at, to be credited to it. There is no formula, no set method. They bear no relationship to anything which the witness has brought forward, to my knowledge, in any one given year. They do seem, however, to bear some relationship to the current financial position of the government at the end of the given year.

The second thing, and that is what I would like to comment on and direct the witness to, Mr. Chairman, is the use of the amounts in the reserve. Now, Dr. Taylor has made the remark that they can be used against anything carried as an active asset. I think that was approximately the intent of your remarks?

The CHAIRMAN: With the consent of parliament.

The WITNESS: On the instruction of parliament.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): Oh yes, with the consent of parliament they can be used against anything carried as an active asset. We have had much discussion about the losses to foreign governments and things like that, and I think myself, at least I would be prepared to admit, that that is quite a legitimate use of this reserve. But I would like to ask Dr. Taylor whether he feels it is equally legitimate to use this reserve against active assets which arise as a result of the miscalculation perhaps, on the part of the government in connection with activities of the government carried on here in Canada. And in that connection I refer, of course, specifically to the old age pension fund. Now, as I understand it, that pension fund was originally set up to be self-liquidating. There was to be a certain amount drawn from the people through income taxes. There was to be a certain amount paid into it year by year from the government. That was to cover the expenses of that particular pension fund. However, it did not quite work out

that way. There was an additional deficit to the fund. We are then faced with the miscalculation that turns up as an asset on the government's balance sheet. We then find that that asset is being reduced through the operation of this reserve fund. Would it not have been much more in practice with normal procedures to have written off that amount as a direct charge through the estimates, and as an expenditure in a particular year rather than utilizing this vote for the purpose?

The CHAIRMAN: Just a second, Mr. Hamilton. That is a matter of government policy, and I doubt that Dr. Taylor should be called upon to express an opinion on that. That is government policy.

Mr. HARKNESS: Apparently it has been recognized that it is preferable to do it that way, because essentially that is what is now being done.

The CHAIRMAN: As I say, as the result of government policy.

Mr. HARKNESS: So from that, it would seem also that writing it off against this fund was not a proper way to handle it.

The CHAIRMAN: I do not follow you at all when you say that. How do you come to that conclusion?

Mr. HARKNESS: I come to the conclusion because the government began writing off this \$90 million odd in the one case, then decided to change their method of handling the deficit of the old age pension account and put them into the estimates each year.

The WITNESS: The old age pension came in in 1952, and the pensions, were paid in full as of January 1st. The contributions to the old age pension fund, in some cases did not start until the following July. Over the first couple of years we were going through what you might call a formative stage in the operation of that old age security fund.

We were taking a 2 per cent sales tax, 2 per cent personal income tax, and 2 per cent of corporation profits. These fluctuate from year to year. They cannot be very accurate. After this fund had been going for two full years, at the end of 2½ years the government had accumulated this deficit of \$99 million over the two-year period, and my recollection is, that the minister gave a good deal of time and space in his budget speech to the discussion of this problem.

The CHAIRMAN: It was debated in the house as I well remember.

The WITNESS: He said he proposed to clean the slate as far as the back part was concerned by writing off this \$99 million against the reserve against active assets. There was an appropriation introduced in parliament in that sense, and from that time on, for the last three years the deficit has been met by a direct charge to expenditure in each year. I should have explained that during the first year when we were paying the old age pension from January, February and March with no revenue to speak of, that was written off as an expenditure in that year.

By Mr. Harkness:

Q. Through an item in the estimates?—A. Yes.

Q. And that is the way it is being done now?—A. Yes.

The CHAIRMAN: Now, the next paragraph is paragraph 58(c) of the Auditor General's report, and it is dealt with at page 92 of the printed minutes of the proceedings. Now, I think you went into that before. It concerned the Greek, the Roumanian and Nationalist China loans. Have you anything to add to what you have already said?

The WITNESS: No, sir. I believe I anticipated this a little while ago by explaining the situation of the Greek and Roumanian loans. The Chinese loan has been in default for the last four years. The last payment by the Chinese

government was in February, 1951 and since that time we have received no payment from the government of China.

The CHAIRMAN: The next item concerns paragraph 69 of the Auditor General's report, and is dealt with on page 95 of the printed minutes of proceedings of our committee. It concerns the munitions and stocks transferred to NATO countries, and the manner of dealing with them in the bookkeeping of the government. Have you anything to say on that?

The WITNESS: The committee will recall that at the time NATO was being organized, which very nearly coincided with the outbreak of hostilities in Korea, the government decided, and I recall a very lengthy debate in the house on the subject, to transfer material to western Europe from stocks of our existing supplies of military equipment. I think I am correct in saying that equipment for two complete divisions was physically shipped to Europe at that time.

That raised some problems in accounting procedure, which was a matter of very considerable discussion, both on the technical level, and also in parliament.

The procedure adopted was this: if we sent over \$50,000,000 worth of equipment, guns, rifles, munitions, stores and that sort of thing to equip European divisions in Europe, that was taken out of the reserves or mobilization stocks of the Canadian army. They, of course, had to be replaced. They could not be replaced at the same time, or even in the same fiscal year in which the guns and so on were physically shipped to Europe. At the same time, it was deemed to be an expenditure in that year. So what was done was this: the value of the equipment shipped was charged as an expenditure to national defence, and at the time of shipment, the national defence replacement account was credited with \$50,000,000, which they could spend in due course, as they could get replacement supplies and replacement of war material. That has gone on for a number of years, and the physical goods shipped to Europe from existing stocks have been charged as an expenditure in that year. An equivalent amount has been put into the defence equipment replacement account, and as the Department of National Defence replaced the physical equipment, the cost of the equipment was charged to the defence replacement account. That account grew to a fairly substantial figure—it got up to something like \$300,000,000. I think I am right in saying that no new credits to that account are now being made, and the amount of that account will gradually go down as the replacement equipment is acquired.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Is the reason that no new charges have been made to it a change of policy, or merely that these shipments have been discontinued?—A. I will put it this way, I think I am right in saying that we are not shipping any more from old Canadian stock. Of course, we are still shipping equipment, in considerable volume, but it is largely new production which is directly charged to mutual aid funds.

Q. So that assuming, if we commenced again to make shipments from Canadian stocks of a sizeable amount, the procedure would be reinstituted?—A. I would not like to say that, even. First of all, the question of fact may or may not arise. I think the Auditor General agrees with us that we do not particularly like this form of accounting as a permanent operation. I think it was eminently suitable at the time; we were doing a special job, and it was spread over several years. I am not an expert in the technical details of the financing of mutual aid operations. All I can say is, we have charged very little in recent years, in the last year, and I understand that there are no new charges going through now.

Q. The net effect of this account would be, or has been, to give the Department of National Defence amounts which they can spend at their discretion in any one year, or in any year?—A. Yes.

Q. Without necessarily going through the processes of parliamentary control, is that right?—A. No, the government may make expenditures for replacement purposes without parliamentary approval in that precise amount, the amounts having been legally approved before.

Q. So we have an amount here of \$332,000,000 at the year ending March 31, 1955, of which \$274,000,000 is in respect of these shipments?—A. Yes.

The CHAIRMAN: I think I should draw the attention of Dr. Taylor to the fact that when Mr. Sellar was giving his evidence, at page 97 of the printed minutes of proceedings, in answer to a question by Mr. Applewhaite, Mr. Sellar said "There is no money involved. This is all bookkeeping. The NATO country never pays anything. The government of Canada first of all debits its vote with an amount—let us say \$1 million for munitions and credits the replacement account." So there is actually no money involved.

The WITNESS: No, that is true. This equipment is part of the Canadian contribution to the defence of western Europe. They are in a sense gifts. They are contributions; but when we supply equipment to European troops, to European defence forces, there is no money involved at that time, but the Department of National Defence has lost certain physical stocks which they have got to replace at some time.

The CHAIRMAN: Could we stop there?

The WITNESS: Yes.

The CHAIRMAN: That money that the Department of National Defence spends eventually to replace this equipment is money voted by parliament?

The WITNESS: Oh, yes.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Let us just back up and look at that again. Is it actually included in the parliamentary estimates of National Defence in that particular year?—A. It is charged in the year in which it is shipped. If there is \$1,700,000,000 for defence, of which a certain number of scores or hundreds of millions are for mutual aid, it is charged against that mutual aid vote and it becomes, in accounting and law, an expenditure in that year.

Q. Right.—A. An equivalent is put into the bookkeeping account for replacement purposes at some subsequent time.

Q. At which time the money is actually spent, but is not included in the parliamentary estimates for that year, is that correct?—A. Only in the current expenditures of that year. In other words, let us see if we cannot sum this up, because I think we have got two impressions here, one of which is quite different from the other, through no fault of anybody. It is just that this is a complicated matter.

The decision is made to ship mutual aid to NATO countries in Europe in, shall we say, "X" year. In that year the cost of that appears as an item in the estimates, or in the Public Accounts, for that particular year?—A. May I interrupt you Mr. Hamilton. There would be two kinds of shipments. If it was a shipment of new material just off the production line, it is a cash transaction.

Q. Right.—A. We pay the manufacturer and we ship the goods to Europe to be used by the French, Greek or Turkish armies. That is a straight cash charge to mutual aid.

Q. That has no direct bearing, we are not including that, because there is no direct bearing?—A. If you ship goods from stocks which have been

bought and paid for, and are part of national defence stocks, if you ship those to the Greeks, Turks, or Belgians, or Norwegians, those goods may have been purchased two or three years earlier. The amount then is charged as an expenditure in this year. The credit is put into the defence replacement account, so that the next year, or the year after the army, navy or air force can replace that with present production bought and paid for at a later time.

Q. That, actually is my point. In the year in which these goods are shipped from Canadian army supplies to Europe, it goes through the estimates, or through the public accounts as an item, and is set up as a reserve, as we call it, for the purpose of the Department of National Defence?—A. Yes.

Q. Now, that reserve goes on from year to year, and shall we say in "X" plus three years, three years after the shipment, it is conceivable that the Department of National Defence wishes to buy widgets—which is a term that might cover almost anything, and I use it for that purpose—they decide to buy widgets, they come in and purchase their widgets, and as I understand it pay for them out of this account which has been built up, and without the necessity of that expenditure being provided for in the estimates of that particular year?—A. Yes.

Q. That is correct?—A. It has to be approved by the treasury board, or the governor in council.

Q. It has to be approved by the treasury board or the governor in council, but you do reach the position—for example, at March 31, 1955 there was an amount of \$274,000,000, and that can be spent by the Department of National Defence without any further approval by the parliament of Canada, subject only to the approval of the treasury board?

The CHAIRMAN: Well, is that not like any amount that is voted by the parliament of Canada for equipment? For instance the Department of National Defence determines what kind of equipment it is going to buy, and where it buys it. Is that not a fact?

The WITNESS: This has some analogy, or very close to it, of a non-lapsing vote.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. That is the point I was going to make. In a great majority of expenditures, which are voted by parliament, if they are not expended within that year they lapse, you do not have them lying around for years afterwards. In this particular case you have got the very substantial amount of \$274,000,000 that is lying around as long as the Department of National Defence wants to keep it lying around, and can be spent without any further authorization by parliament, whenever the Department of National Defence and the treasury board feels like spending it. You have extended the money that is passed beyond the annual survey of the house, as I understand it?—A. It is sort of half way between a non-lapsing vote and a statutory item, and was, of course, covered in precise detail by the Defence Appropriation Act of 1950, which sets up the precise procedure to cover this.

Q. What other non-lapsing votes have we got, Mr. Taylor?—A. The Federal District Commission has some, the national capital fund and the Colombo Plan fund is in a sense a non-lapsing vote.

There is an appropriation for the purchase of pictures for the National Gallery which is a non-lapsing vote.

Q. Have we any idea of the total amount of these other non-lapsing votes as opposed to this one?—A. Yes, there is a grand total of \$58,000,000. The Colombo Plan has \$25,000,000 a year.

Q. Right.

A. Since that is dealing with programs of irrigation, which may go on for years, the money is paid into the Colombo Plan fund. It is set up in a special account and does not lapse at the end of the year. That is by far the biggest one.

The national capital plan vote is \$2,500,000 a year. They now have at the moment \$4,200,000 unexpended. That is, \$51,000,000 Colombo Plan and \$4,000,000 national capital fund.

Then there is a fairly important one, the railway grade crossing fund which is a non-lapsing vote. The money is transferred to the fund and they spend it as the occasion arises. There would be \$2,750,000 in that at the end of the year, the year we are talking about. The details, if I may point out are at page 102 of the Public Accounts.

Q. Would there be any merit in suggesting that such non-lapsing votes, and I include the others as well as this in that, should in some way come for the review of parliament?—A. Well, Mr. Chairman, they are presented for the review of parliament, whether parliament wishes to review them or not, because they are always set up in great detail in the Public Accounts which are tabled there. I realize that Public Accounts is a very thick volume.

I would like to, if I may, pay a tribute to Mr. Balls, who has done a fine job in the last few years in improving the set-up, particularly this smaller Part I which we print separately, where, in 80 or 100 pages he gives the gist and the highlights of the Public Accounts.

If you want the precise details you will have to go through the remaining two or three inches and find it there. But, it is all there, and all tabled in parliament. To what extent parliament actively takes cognizance of these figures, I do not know.

The CHAIRMAN: It is there to be examined by any member of parliament who wants to do so.

Now, the next item we have, Mr. Taylor, concerns crown corporations, paragraphs 95 and 96 of Mr. Sellar's report.

It is getting late, and we probably will not be able to finish today. We might adjourn until—

The WITNESS: Tomorrow would be very inconvenient for me, but I am free on Thursday. I am before the committee and I will meet their request, but tomorrow would be awkward.

The CHAIRMAN: Thursday morning, I think would suit the committee.

Mr. McWILLIAM: I move we adjourn to Thursday morning.

The CHAIRMAN: 10.30 Thursday morning.

Mr. HOLOWACH: What time again?

The CHAIRMAN: 10.30 on Thursday morning, if that suits the committee.

Before we leave this morning we had to wait some time before we had a quorum. I think it might be advisable to have a motion to reduce our quorum from 15 to 10.

Mr. MITCHELL (*London*): Would it not be better, Mr. Chairman, to find a time that did not conflict with some of the other committees that are sitting? At this moment you have got Agriculture and Colonization, and you have got Banking and Commerce, and I know there are many members of this committee who are on the Banking and Commerce Committee.

The CHAIRMAN: On Thursday morning there is a meeting of the Standing Orders committee at 10 o'clock, the Federal District Commission, and the Agriculture and Colonization.

Mr. POMMER: What time is that?

The CHAIRMAN: Standing Orders is at 10 and the others at 11 o'clock. I think if we meet at 10.30 we can probably get through in a relatively short time.

Mr. MITCHELL (*London*): Well, the one that does conflict is the Banking and Commerce committee.

The CHAIRMAN: Banking and Commerce is not sitting on Thursday.

Mr. POMMER: Agriculture and Colonization is not sitting Thursday either. It has been cancelled.

The CHAIRMAN: Well, let us set the time then at 11 o'clock on Thursday morning.

Agreed?

Can I have a motion to reduce the quorum?

Mr. CAMERON (*High Park*): Sir, I will make the motion to reduce it.

Mr. LAFLAMME: I will second it.

The CHAIRMAN: All those in favour?

Mr. MITCHELL (*London*): Mr. Chairman, before you put that motion, how many members are there on this committee?

The CHAIRMAN: Fifty.

Mr. MITCHELL (*London*): I cannot see how you expect to do any business with a quorum of 10.

The CHAIRMAN: Well, it has been the custom to reduce the quorum to ten. I did not do it at the beginning because I thought we could get along with 15, but this morning we had to wait 20 minutes before we started. Now, if the opposition is opposed to it, I have no objection, because, after all, they asked for this committee to meet, and if we cannot meet with a quorum of 15—

Mr. MITCHELL (*London*): I think the difficulty, Mr. Chairman, arises out of the conflict in the times of the various committee meetings.

The CHAIRMAN: Yes, but if we wait until nobody else is sitting we will never sit.

Mr. HAMILTON (*Notre-Dame-de-Grâce*): 15 is less than a third of the membership.

The CHAIRMAN: Well, in view of the remarks made by the members of the opposition, I will not put the motion to a vote. We will see whether we can get along with a quorum of 15.

APRIL, 19, 1956

The CHAIRMAN: Order.

When the committee rose at its last sitting we had reached paragraph 95 of the Auditor General's report which deals with insurance.

Have you any remarks to make on that subject, Mr. Taylor?

Mr. K. W. Taylor, Deputy Minister of Finance, called:

The WITNESS: Yes sir.

The Auditor's report refers to the fact that there is no uniform practice among crown corporations in the matter of insurance. That, of course is correct.

The CHAIRMAN: For the information of the committee, Mr. Sellar's remarks are at page 98 of the printed minutes of the proceedings.

Hon. Mr. ROWE: What paragraph?

The CHAIRMAN: At page 98 of the printed minutes of the proceedings appear his remarks on paragraph 95.

The WITNESS: These crown corporations vary considerably in the nature of their operations and the nature of their assets, and the policy in respect to insurance is a matter of business judgment on the part of the directors of these corporations. For example, you have a corporation like the Central Mortgage and Housing which owns property in almost every city in Canada.

It does not carry commercial insurance. It is a self-insurer. It has its own insurance fund which is adjusted annually.

At the other extreme you have a corporation like Polymer which has many tens of millions of dollars of investment all within a square mile or so just inside the city of Sarnia. There you have a risk that is highly concentrated. Polymer does carry commercial insurance.

So, the directors of each corporation use their own best judgment as to whether it is desirable to self-insure, or to carry commercial insurance. Sometimes there is a mixture of the two. Trans-Canada Air Lines, for example is a self-insurer in respect of what you might call the more ordinary risks, but it does carry commercial insurance for what is called catastrophic losses.

The CHAIRMAN: Are there any questions on that paragraph?

By Mr. Fulton:

Q. The Auditor General asked, or, at least suggested that we might want to give consideration, as I understand it, to the suggestion in his report that there might be a uniform practice. Mr. Taylor, would it be, in your opinion, either desirable, or feasible to institute a uniform practice in this regard?—

A. I suggest, Mr. Fulton, with due respect that it is probably not desirable to have a uniform policy, because you have not got uniform conditions.

I think you will find, in private business, that large corporations that operate fleets of motor vehicles scattered across the country, not uncommonly are self-insurers on the automobile risk. Others follow the policy of carrying commercial insurance.

It was at one time a director of Central Mortgage and Housing Corporation, and this matter was discussed at least once a year by the board of directors. It was pretty obvious to us that it would have been more expensive to the corporation to carry commercial insurance on its thousands of properties scattered right from coast to coast. We did not have any large volume of property within a concentrated area which involved a conflagration risk. We used to spend, in Central Mortgage and Housing, a fair amount of money on fire prevention and safety inspections, and on the record, the Central Mortgage and Housing, up to the present time, has been having extremely small losses.

Q. Whose responsibility is it in the department to which these crown corporations report—or, perhaps I should phrase my question somewhat differently. Is the responsibility of deciding as to whether insurance will be carried entirely with the board of directors of these crown corporations, or is there any residue of responsibility on the part of the ministers of the departments to which those corporations report, for example, in this question of insurance? What I am trying to get at is, where does the responsibility rest, and how can this committee, or parliament be certain that there is some supervision of the problem?—A. The responsibility rests, in the first instance, with the board of directors of each individual corporation. These crown companies report to a number of different ministers, certain of them to the Minister of Trade and Commerce, others to the Minister of Transport, the Minister of Public Works and so on. The minister to whom they report has a responsibility to parliament for the proper and sensible management of the corporation.

I would suppose that the minister, certainly, has a right to refer this matter back to the board of directors and ask them to reconsider it, if he thinks, in his judgment, that the policy they are following is of doubtful wisdom.

Hon. Mr. ROWE: You say it might not be desirable to have a more uniform practice. The basis of insurance being on the risks involved, for instance, there are certain types of insurance that cost a lot more than others; is that

not the principle of insurance, as such? I mean, I cannot see how it cannot be advisable to have a more uniform policy of insurance through the government, carry their own risks, generally from insuring with—I mean, I cannot see how the principles of insurance, how you apply it to one part of your property and not to another, spread over the whole list of crown companies.

The CHAIRMAN: I think Mr. Taylor explained that to a certain extent, but if you like he can go over it in more detail.

The WITNESS: Members of the committee will recall about two or three years ago the government introducing the fire losses replacement account, by legislation in the house, to get a better system of reporting fire losses on government property per se. I think we did discuss this matter with all the crown companies, and invited them to express views. We found it would be very difficult for us from a treasury point of view to establish rates of insurance on the great varieties of property. If we had a flat rate, the directors of corporations that had high risks would probably come in, and those that had low risks might stay out.

By Hon. Mr. Rowe:

Q. Pardon me, maybe I am misunderstanding you, but you mean for the government to take the risk?—A. Yes.

Q. It would be the government that would be insuring the crown corporations on that basis?—A. Yes. We raised the question whether they would like to carry their insurance with the government. It raises the problem of the valuation of the property of some of the highly technical operations such as Chalk River and Polymer.

I have not got an up-to-date list here, but I have one that we prepared, two years ago, of all the crown companies, as to how they handle their insurance; generally speaking, those corporations that have a great variety of property scattered over a wide territory in many provinces, are self-insurers. The others that have all their property in one location, all their eggs in one basket, generally speaking carry commercial insurance.

By Mr. Weaver:

Q. Mr. Chairman, as I read this report of the Auditor General, he did not recommend a general coverage. It is only, as Mr. Taylor says, where a crown company is concentrated in a particular area, and where with respect to its financial position it might be seriously impaired by a local catastrophe?—A. Yes.

Q. That is what you are saying?—A. Yes.

By Mr. Harkness:

Q. It was pointed out by Mr. Sellar that that does not apply in some cases. One of the largest of the crown corporations is the example he gave, Canadian Arsenals, which has machinery and equipment and so forth to the total of about \$60 million at more or less the one place, and it is not insured.—A. In the case of Canadian Arsenals, sir, the property does not belong to Canadian Arsenals; it belongs to Her Majesty; it belongs to the government of Canada, and they, only, use it. So, if there was a fire loss in Canadian Arsenals, a machinery and equipment loss, it would be a burden on the government of Canada, and not on Canadian Arsenals.

The CHAIRMAN: And the policy of the government, if I understand it correctly, is not to insure?

The WITNESS: The government of Canada does not insure its own property.

Hon. Mr. ROWE: It does not insure it?

The WITNESS: It does not insure its own property.

The CHAIRMAN: Mr. Taylor, paragraph 96 of the Auditor General's report deals with the surplus of cash and securities that are held by the different crown corporations. He quotes from section 81 of the Financial Administration Act, and made certain remarks when he was before the committee, which will be found at page 111 of the printed report of proceedings.

Have you any remarks on that subject, Mr. Taylor?

The WITNESS: The Department of Finance keeps in close touch with the crown companies in relation to their cash position. Section 81 of the Financial Administration Act which was quoted by the Auditor General, deals with two separate aspects. The first, subsection (2), provides that a crown company may, in a sense, use the consolidated revenue fund as a banking account. It may deposit its money with the Receiver General, and that money may be withdrawn when the corporation requires it.

Some of the corporations make use of that device when they have funds advanced by parliament, and they do not need the money right away. They leave it on deposit with us until such time as they require it.

Subsection (3) provides that the Minister of Finance, and the appropriate minister—that is the minister to which the corporation reports—may, if they think the corporation is maintaining excessive cash balances, direct the corporation to pay over part of the cash balances to the Receiver General, in a sense forcing the declaration of a dividend. The amount of cash held by the various corporations sometimes of course is quite large. The details are to be found in volume II of the public accounts where the balance sheets and income and expenditure statements of all the corporations are set out in detail along with the auditor's certificate.

I could comment on a number of larger items. For example on page 111, Canadian Arsenals had nearly \$13 million in cash at March 31st, 1955. As a matter of fact, they paid over to the Receiver General of Canada approximately \$6 million a few days later. That was a paying over to the Receiver General of their entire surplus for the year which was \$5½ million plus another half million or so made up of other financial items.

By Mr. Fulton:

Q. Was that paid over under section 2 or under section 3?—A. It was a declaration of dividend by the directors. We did not order them to pay it over. They normally do pay us their annual surplus at the conclusion of their fiscal year. So a few days after that date their cash balance was down to something of the order of \$6 million. They have a volume of sales or operations running between \$80 million and \$90 million a year, so the \$6 million remaining after they paid over their operating surplus would be about one month's requirements.

By the Chairman:

Q. Who would the sales be made to in general?—A. Canadian Arsenal sales are almost all made to the government of Canada.

Q. That is what I thought.—A. To defence production; I believe the sales would be almost all made to the government of Canada. Some might be conveyed to foreign governments under NATO.

Q. But in the first instance they would all be made to the government of Canada?—A. Yes.

Mr. H. R. BALLS (*Director of Financial Administration and Accounting Policy Division*): There may be some cases where contracts would be negotiated with foreign governments, possibly through Canadian Commercial Corporation and other crown corporations, but the bulk of them certainly would be with the government of Canada.

The WITNESS: If you look at their balance sheet for accounts receivable as of March 31st, \$3 million was receivable from the government of Canada and \$3 million from the Canadian Commercial Corporation. That latter \$3 million would probably be for foreign governments.

By Mr. Harkness:

Q. The \$6 million which they retained was necessary to produce supplies before they received returns; it was in the form of working capital?—A. Our view was that it was a reasonable working cash balance for a corporation of this size.

The next item is Canadian National Railways with \$18 million in cash and \$28 million in bonds and short-term investments. The monthly expenditures of the Canadian National Railways would be between \$55 million and \$60 million—and that again in our judgment, would not be an unreasonable amount of cash or of short-term securities for them to be carrying at any given time.

By the Chairman:

Q. How would that figure compare with their monthly operating revenues?—A. Their monthly operating revenue is of the order of \$60 million. Annually it is almost \$640 million. So \$55 million would be about their monthly revenue.

Q. That amount of \$46 million would be a good deal less than the monthly revenue of the railways?—A. Yes.

Hon. Mr. ROWE: Have you considered the Canadian Broadcasting Corporation's \$15 million?

The CHAIRMAN: Have we finished with the Canadian National Railways?

The WITNESS: Yes. That is all I have to say. I do not know the details. The Canadian National Railways may have had obligations coming up within the next month or so for the purchase of diesels or something else; I do not know the exact details.

But as to the Broadcasting Corporation on page 46 of volume II—according to the details of accounts, they had cash of \$5,700,000 in round figures, and they had investments in government bonds of about \$9½ million. These funds were, in large measure, being held for the development of their capital expansion of television and other services and were being drawn down from month to month as they were required. The actual operating expenses as shown on page 47 run something like \$2½ million to \$3 million per month.

By Mr. Harkness:

Q. Their cash and bonds are very much greater in proportion to the business they do than would be the case with Canadian Arsenals or the Canadian National Railways.—A. Yes, and I think they have been expanding their capital program, or were doing so at that time, in television quite rapidly.

Q. Is not the situation there probably due to the fact that they first expect these taxes on television sets and radio and so forth, and they got in a considerable amount more than they required for the year's operation, and therefore I presume they put the \$10 million of surplus into government bonds.—A. They had an excess of income over expenditure that year of \$4¼ million.

By Mr. Applewhaite:

Q. Does that include capital expenditures?—A. That is income over expenditures.

Q. Not including capital?

By Mr. Harkness:

Q. That would be the way in which this \$9 million originated, I presume?
—A. I think so.

Q. The idea I am trying to get at is this: instead of turning that money back to the government and having to get a grant at some later time, they are allowed to retain it for use in making capital expenditures.—A. They could have done one of two things: they might have deposited it under subsection (2) of section 81 as a banking operation, but it was thought to be more profitable to them to invest it in short-term government bonds.

By Mr. Fulton:

Q. When that came under your review, was it considered that is was an appropriate amount for the corporation to have?—A. Yes, having regard to their commitments and so on.

Q. The C.B.C. has considerable liabilities to the government, has it not in the way of advances and loans?—A. Yes; they show \$19 million of government loans and \$4 million as a reserve for capital expansion, and they had a surplus at that time of about \$10 million.

Q. When they show an excess of income over expenditures of \$4 million on a year's operation, and on an operation of total expenditure in the neighbourhood of \$30 million, would that not normally be a time when you might expect them—or properly ask them if they did not—or would not properly expect them to make some return and discharge some of these advances, and their obligations for these advances?—A. The loans by the government of Canada are on term debentures which have a definite maturity date.

Q. All of them; that is the whole \$19 million of loans is secured by debentures?—A. That is right.

Q. There are no short term advances then?—A. Perhaps Mr. Balls who is the man who goes into the details might answer you.

Mr. BALLS: I have not the particulars with me but they are all covered by debentures or notes, and my understanding is that the repayment of these loans is to be made annually commencing, I think, around 1959 or 1960. In other words, the loans were made to permit the capital expansion of television and radio services, and when the expansion of the services has been completed and the capital expenditures made, there is provision for the repayment of the loans annually over a period of some fifteen to twenty years.

By Mr. Harkness:

Q. Have you reason to believe that there is any good possibility of these loans being repaid?—A. Yes, I think so.

Q. Well, the situation as far as the Canadian Broadcasting Corporation is concerned, as I understand it, is that the income to them from this portion of the sales tax on radio and television sets is now rapidly falling off. Therefore they are likely to be in a position of having a considerable deficit.—A. I am not prepared to go into financial forecasting of the Canadian Broadcasting Corporation's operations. A royal commission has been appointed to study that, among other things.

Q. I do not think it is a matter of particular forecasting; I think that the situation has already been announced and that is part of the reason why the royal commission is meeting, I presume.

The CHAIRMAN: I have one question to ask. It might interest the committee to know in what form that financing was done. Did the C.B.C. make a bond issue, with a certain amount of the bond issue coming due in certain years, and would that apply to the \$19 million?

Mr. BALLS: From time to time under the authority of parliament, under items in the Appropriation Acts, the government was authorized to make

loans to the C.B.C. As part of the terms of the particular loan, in the item in the appropriation act, it was usually provided that the loan would be made on terms and conditions to be approved by the governor in council. Those terms and conditions, as approved by the governor in council, included provision for the repayment of the amounts loaned on the basis which I indicated to Mr. Fulton. My recollection is that each loan is secured by a promissory note for a debenture of the corporation.

Hon. Mr. ROWE: None of them are due?

Mr. BALLS: None of them have as yet fallen due.

The WITNESS: They pay interest, but the repayment of the principal does not start until three or four years from now?

Mr. APPLEWHAITE: In the C.B.C.'s income and expenditure account on page 47, there are two items totalling over \$27 million on income, meaning grants. Is it open to the C.B.C. to utilize any of those funds for capital expenditures, or are those funds surely for the operations which you mentioned?

Mr. BALLS: These moneys are granted to the corporation under the terms of section 14 (3) and (4) of the Canadian Broadcasting Act and I think are available for the purposes of the corporation, both for operating as well as capital expenditure.

Mr. APPLEWHAITE: What I am trying to get at is this; if you include as income sums which have been granted by parliament and which might be used for capital expenditures, then you are showing a surplus of \$4 million which actually is not an operational surplus, if part of the income shown should really be shown as grants for capital. Would you correct me if that is wrong?

Mr. BALLS: The statement of income and expenditures of the C.B.C. does treat the moneys received from these sources as income of the corporation; they represent moneys received for the general purpose of the corporation. I think the point is that in the first instance they are applied to meet the operating requirements of the corporation, and any sums remaining over therefrom are available to the corporation for the financing of its capital requirements.

Mr. APPLEWHAITE: It would have been legal then for the corporation to have spent that \$4 million on a new station, would it not?

Mr. BALLS: That is correct; but you must, I think, bear in mind in that connection that the corporation is required under the terms of the Financial Administration Act to submit a capital budget for each financial year, and that capital budget is approved by the governor in council on the recommendation of the minister for the Canadian Broadcasting Corporation, and the Minister of Finance, and it is subsequently laid before parliament. You will find the requirement in section 80 of the Parliament Administration Act that the capital program of the corporation be tabled in the House of Commons annually.

Mr. APPLEWHAITE: Let us suppose that they had spent the \$4 million on new stations during that year. What surplus would they then have shown?

Mr. H. R. BALLS: I think they would have shown an operating surplus just as they have it here, but the cash and investments of the corporation would have then been reduced by the amount which they had spent for their fixed or physical assets—in other words, by the amount used to acquire new television stations and other property.

Mr. FULTON: Their surplus would then have been reduced from some \$10 million to \$6 million.

Mr. BALLS: I think that the excess of income over expenditures for the year would have stayed at \$4½ million, as reported, but the amount of the

assets of the corporation held in the form of cash and bonds would have been reduced by an amount equivalent to the increase in their physical assets.

Mr. APPLEWHAITE: Is it fair to say that they are showing an operating surplus which is composed of parliamentary or statutory grants which can be used for capital purposes?

Mr. BALLS: I think that is a correct statement.

By Mr. Leduc (Jacques-Cartier-Lasalle):

Q. Is the word "income" not synonymous with "receipts"?

Mr. BALLS: Under section 14 (3) and (4) parliament has provided certain funds to the C.B.C. for the general purposes of the corporation, and when it prepares its annual budget, the C.B.C., like other crown corporations indicates what it proposes to expend on capital during the course of the year and also the source of the funds which it will be spending on capital.

Many crown corporations will use such surplus funds for capital expansion, and that is true of any corporation which may invest its earnings in additional capital. The amount of \$6½ million is the annual grant for sound broadcasting, while the \$21,400,000 is the revenue from the 15 per cent tax on radio and television sets and tubes, and so on. Those are funds the corporation may use for both general and capital purposes.

The CHAIRMAN: I think for the record I ought to draw your attention, Mr. Taylor, to the fact that the statement on page 47 of volume II is only a statement of income and expenditures and not an operating profit statement. As Mr. Applewhaite mentioned in the question which he asked about the \$4 million; Mr. Applewhaite asked whether the \$4 million was included in the operating profits. This statement does not show any operating profit. It is just a statement of income and expenditure from all sources, not only from operations but also from grants. They are distinguished there.

The WITNESS: Yes.

By Mr. Leduc (Jacques-Cartier-Lasalle):

Q. Is not the word "income" there synonymous with the "revenues"? Should it not be excess of receipts over expenditures, and only receipts are included, grants from the government?

The CHAIRMAN: I think that is so.

The WITNESS: If in that year they had drawn down a loan as such for that \$19 million, that would not be included in income; that would be regarded as borrowing.

Mr. LEDUC (*Jacques-Cartier-Lasalle*): It is not a revenue and expenditure account; it is just a receipt and expenditure account, showing what the C.B.C. is receiving in money and grants together; it is not an operating surplus; it should be called "excess over expenditures" instead of "income over expenditures".

The CHAIRMAN: That is the point!

By Mr. Applewhaite:

Q. Is that \$6 million odd an engineering expenditure? Is that on operating or is it part of capital?—A. I presume it is operating. On page 45 we have the Auditor General's statements that he believes these accounts are all in order. It is included in the Auditor General's certificate.

Q. I am not suggesting that they are not in order. I am trying to get it clear in my mind what they mean. Do they mean that the \$6 million is for engineering or for operating? Then we have shown on the income side moneys available for capital expenditure, and you have it on the expenditures

side with no capital expenditures.—A. The grants under section 14 (3) and (4) are funds put at the disposal of the corporation for their general purposes. They are not loans; they are not to be repaid.

Q. Are they gifts?—A. They are income.

Hon. Mr. ROWE: Could you not call them gifts?

Mr. APPLEWHAITE: I was told that they are available for capital expenditures if the C.B.C. so wishes.

The WITNESS: Yes.

By Mr. Harkness:

Q. Would not some of this \$6 million for engineering be actual capital expenditure? I do not see any capital expenditure anywhere else and there is no doubt that the C.B.C. did put money into the building of television stations in that year, so some of that money must have been for capital engineering.

Mr. BALLS: This is a statement of income and expenditure representing on the income side moneys which have been received by the corporation from all sources for these purposes during the year; while on the expenditure side it records the expenditures which have been made for the operation and maintenance of the activities of the C.B.C. This is, I think, quite comparable to a statement of income and expenditure of any other commercial corporation. If a private corporation had an excess of income over expenditures on operating account, then the excess would in that case also be available for capital expansion. That is, in essence, what the C.B.C. is showing in this case.

Mr. HARKNESS: Where does their expenditure for capital purposes appear? I do not see it here at all.

Mr. BALLS: It would be reflected in the difference between the amount shown at the end of the preceding year as spent on these capital assets, and the amount shown at the end of this year. In other words, the amount by which the capital assets of the corporation as shown in the balance sheet was increased during the year, taking into account any amount in connection with depreciation. You will find in schedule A on page 48 of volume II of the public accounts, a listing of the capital assets of the corporation up to March 31, 1955, and the amount given is \$20,646,244. If you compared these figures with the amounts at the end of the preceding fiscal year, I think you would find that the C.B.C. reported an increase.

Mr. HARKNESS: Have you got that figure?

Mr. BALLS: I am sorry but I have not got the preceding year's Public Accounts before me.

By Mr. McLeod:

Q. Some of us are interested in operating costs and what it has cost the people of Canada to provide this service to them. I would eliminate these grants from income; whereupon we see that the total income exclusive of the grants from the government, which I understand come from taxes on equipment sold—that it would leave an income of \$7,015,841. And that you might put down to operating expense; and in that I have eliminated the loan items, interest on loan, amortization of improvements and so on; and we have an operating cost of \$28,425,422. In other words it cost us that amount of money to provide the service; and on income from services the profit was a little over \$7 million. So we find that the operating loss is actually \$21,409,581; that is what has to be provided by way of this tax income, and that is all. There are no further grants, and the people of Canada have to pay almost \$21 million to provide this service. Am I right?—A. We are dealing now with the accounts of the C.B.C. Parliament has provided them with a certain source of income and other sources of income are shown. Your arithmetic is quite correct.

Hon. Mr. ROWE: It seems to be a little misleading when you term it as "source of income"; it is really a grant, because of the loan.

The CHAIRMAN: It is not misleading because the word "grant" appears in both, it is mentioned in the first two lines of the statement of income and expenditures. It says:

Grant under section 14 (3) of the act . . ." and it says "grant under section 14 (4) of the act . . .

There is nothing misleading in that, with all due respect to you, Mr. Rowe.

Hon. Mr. ROWE: Their income sounds as though it was income which is operating income.

The CHAIRMAN: Grant sounds as if it is a grant, does it not. You have the word "grant" right there in the statement!

By Mr. Applewhaite:

Q. I believe that the heading of the statement should be changed to read "statement of receipts and disbursements".—A. It does not include receipts from loans.

By Mr. Harkness:

Q. This all stems back to the point that this corporation is entirely different from such a corporation as Polymer where the receipts are due to sales, whereas in this corporation these receipts are really due to grants and taxes which are assigned by parliament. As Mr. McLeod has pointed out, it is supported at public expense through taxes.

The CHAIRMAN: And in the public interest!

Mr. HARKNESS: Well, yes.

The CHAIRMAN: You cannot compare it to Polymer Corporation. It is not like Polymer. It supplies services to the people and those services cost money.

Mr. HARKNESS: I said that it was in quite a different situation to a corporation like Polymer.

The CHAIRMAN: I think you compared it to Polymer and you drew that conclusion.

Mr. LEDUC (*Jacques-Cartier-Lasalle*): Shouldn't it say that these receipts come from special taxes?

The CHAIRMAN: It says so right there.

By Mr. Fulton:

Q. This all arose out of the question whether it would not be appropriate to suggest to the C.B.C. that they turn over to the Receiver General some of this quite large capital, this accumulated capital surplus, they now have, and then we go a little aside from that in our discussion.—A. All I can reply to that, Mr. Fulton, is the two ministers concerned, having regard to the future commitments of the corporation for expansion of services during the subsequent periods, after March 31, 1955, came to the conclusion that there was not an excess of cash which the corporation should be required to surrender.

Q. I take it from that the two ministers anticipate a deficit in C.B.C.?—A. No. There are very large capital expenditure programs.

The CHAIRMAN: And particularly at that time, a large capital expenditure program was the development of television.

Mr. FULTON: This is 1955; and I notice at page 48 of volume II, the capital works in progress are in the order of \$438,001. That is not a very substantial item.

The CHAIRMAN: Which page?

Mr. FULTON: Page 48 of volume II, the last entry, capital works and progress, \$438,001.

The CHAIRMAN: That was the 31st of March, 1955, and I suppose most of them had been completed that year.

Mr. FULTON: That is my point. If most of them had been completed, it seems to me there is a surplus on hand, a total accumulated surplus of \$10,772,000 according to the books. Then, actual cash in bonds of \$15,000,000. I was wondering what future provision or requirement is anticipated that would support the decision that that money should be left in the hands of the corporation?

Mr. BALLS: There are two points in regard to that, Mr. Chairman. One is: the \$438,000 which Mr. Fulton refers to represents the portion of the capital works in progress at the end of the fiscal year which could not have been allocated at that time to the various categories above.

The second point is: this was fairly early in the stage of the development of the television service of the corporation. There were at that time, as I recall, fairly substantial commitments in connection with the capital program and the cash disbursements would be made subsequently. Since the date of this particular financial statement there have been very large expenditures made, and the balances of the corporation have been drawn down considerably.

By Mr. Fulton:

Q. Just so that we can complete the picture, have you got any information, can you give us some idea of the—A. I am sorry, I have not got the material before me I think the officers of the corporation would have to be called.

The CHAIRMAN: We would have to get someone from the corporation for that further information.

The next item in this list on page 111 is the Central Mortgage and Housing, \$6,493,000. Have you any remarks about the adequacy of that amount being held in surplus?

The WITNESS: On page 84 of volume II, the cash there is shown as \$2,800,000, in a corporation which has not far short of \$700 million assets and liabilities, and their annual operating costs are in the order of \$15 million. They, of course, have substantial funds they are paying out from month to month on loans. They also have a large number of regional offices which have to be kept in funds, and they have local bank accounts for these various regions.

Hon. Mr. ROWE: That would appear almost inadequate, then?

The CHAIRMAN: That is only cash, of course, that \$2 million. There are \$6 million in cash and securities there, in all.

The WITNESS: Yes, they have reserves. Part of that reserve would be the—no, they had not started the insuring of mortgages. That was December 31st, 1954 before it started. The insuring of mortgages had not got under way at that time.

Hon. Mr. ROWE: It still looks as small as the other does large.

The CHAIRMAN: Well, that is a matter of opinion.

Hon. Mr. ROWE: That is my opinion.

The WITNESS: Of course, on their loans, they do not borrow their annual requirements in a lump sum; they borrow from month to month as they require it. If they have large disbursement on mortgage account they can come to us, and in 48 hours get another \$5 million.

The CHAIRMAN: The next item is the Crown Assets Disposal Corporation.

The WITNESS: Crown Assets Disposal Corporation has nearly \$2 million in cash. I might say, this was one case where we did feel that they were a little on the excess side, and after discussions with the officials of Crown Assets Disposal they made a payment of \$500,000 to the Receiver General a few months after the close of their fiscal year, reducing their cash balance by that amount.

Hon. Mr. ROWE: They would hold then \$1½ million?

The WITNESS: Yes. Their cash balance, of course, fluctuated from time to time. That is on page 19, is it not? Of course, of their \$1,900,000, \$800,000 was in their agency account. They had, what you might call a free balance of \$1,164,000; shortly after they paid us half a million of that.

The CHAIRMAN: Now the item Eldorado Mining and Refining, that is \$5,000,000 cash.

The WITNESS: That corporation had a very extensive capital program actually under way at that time, and that did not seem to us to be an unreasonable cash balance to be carried.

The Export Credits Insurance Corporation has a cash balance which is quite moderate, \$400,000. They have in addition some \$12,000,000 in government bonds. That, of course, is the capital of the insurance corporation which was provided by the government when the corporation was formed, and that is really their underwriting reserve, which they maintain in government bonds, and have over a great many years.

The CHAIRMAN: The next large item is the National Harbours Board.

By Mr. Fulton:

Q. Excuse me, Mr. Chairman. The assets and liabilities of the export credits, on page 97 of Volume II, shows an authorized capital of \$15,000,000, and an issued capital of \$10,000,000, but they have bonds in the amount of \$12,000,000.—A. Yes. The other \$2,000,000 is their accumulated underwriting reserve, or accumulated operating profit over the last 10 years.

Q. Would I be correct in saying that they would have pretty heavy contingent liabilities?—A. Yes. I forget the amount, but it is up in the tens of millions. The insurance in force at any given time is of the order of \$30 million or \$40 million.

Q. The \$2,000,000 available cash reserve, then, would not, you feel, be in any way excessive in view of that contingent liability. Would that be your thinking?—A. No, I do not think so.

I am a director of the Export Credits Insurance Corporation, and we have on occasion had to pay out \$2 or \$3 million in the course of a few months.

Of course, the big risk we insure against is on blocked currency.

A couple of years ago, Brazil was in exchange difficulties. The Brazilian importers had deposited their payments in the Bank of Brazil, but they could not get it transferred out of the country, and we had to pay Canadian exporters in dollars. In the case of Brazil we were finally paid in dollars over two or three years. Then more recently Turkey, got into exchange difficulties. We had large exports of farm machinery to Turkey, which we had insured. Again we have the Turkish funds deposited in Turkey, but the Canadian exporter cannot get Canadian dollars, so we have had to pay them. We have had to pay out several millions of dollars. Undoubtedly we will get the money back in due course, in instalments as the Turkish government finds it possible to make foreign exchange available.

The CHAIRMAN: Now the National Harbours Board, Mr. Taylor.

The WITNESS: National Harbours Board, that is on page 38 of volume II.

By Hon. Mr. Rowe:

Q. It is as large as the national railways, \$40,000,000?—A. Well, I should explain there first of all that this is a large operation. The cash on hand, having regard to their operations and the nature of them, it seems to us to be reasonable.

The \$40 million of investment is in fact their reserve fund, which you will see on the left hand column of page 38. They have a reserve fund of \$38 million for the replacement of capital assets, \$2,250,000 for their fire and general insurance and so on.

The National Harbours Board maintain their own reserve in that way, and have invested these reserves in government bonds. This is, in fact where they keep their replacement or depreciation reserve.

The CHAIRMAN: In the case of a large fire, I suppose they rebuild out of that fund without asking the government for funds?

The WITNESS: That would be covered from the fire reserve, but there are, undoubtedly properties of the National Harbours Board which are quite old and will have to be replaced at a major expense; and they would not come to the government for these funds. They would draw out of this replacement fund.

By Hon. Mr. Rowe:

Q. Is that now an unusual amount of increase over former years due to development in harbours?

Mr. BALLS: This has been built up gradually over the years by the board with some consideration for their future requirements for the replacement of capital assets. I do not think it is an unreasonable amount.

The WITNESS: The capital assets are \$245 million.

By Mr. Fulton:

Q. The total accumulated depreciation is \$62 million, is it not? They do not have a cash depreciation fund, this is their total book depreciation?—A. No.

Q. And that is the nature of these loans and advances of \$197 million from the government of Canada? There is, in other words, nothing on hand at the moment to meet that at all, is there?—A. There are the physical assets, there is this \$250 million of works.

Q. Yes, but in view of what you said there is no free cash balance to apply towards that, is there?—A. No.

Q. I understood you to say this \$46 million is pretty well entirely accounted for by depreciation reserve, plus the insurance. The total in the reserve fund is \$41,676,000, so there is about \$5 million there, is there not?—A. The replacement reserve is just a bookkeeping entry; there is no cash involved, at this particular point. However over a period of years, \$38 million out of operating revenues, was invested in funds which they can sell, and the proceeds can be used to finance major replacements when the occasion requires.

Q. Yes, but my point, Mr. Taylor is, that on page 111 it shows them having a total in cash and securities of \$46 million.—A. Yes.

Q. On page 38 of volume 2 it shows their reserve fund of the listed assets as \$41,676,000, which would seem to leave a free, what I am calling,—probably by the wrong technical term,—but a free cash balance of some \$5 million.—A. It shows at the top of the page \$4,700,000 as the cash on hand.

Q. It is felt that that sort of relationship is regarded, as compared to their requirements, normal?—A. It was not unreasonable.

The CHAIRMAN: The accounts payable on page 38 again, Mr. Taylor, are \$4,484,000; they are almost as high as the cash on hand?

The WITNESS: Yes.

The CHAIRMAN: So I would conclude there that the amount of cash on hand is certainly not unreasonable.

The WITNESS: Yes.

Mr. LEDUC (*Jacques-Cartier-Lasalle*): What about the item on the estimates there with regard to the Jacques Cartier bridge? Is the Jacques Cartier bridge at Montreal a paying proposition; is it meeting expenses? The reason for that question is, I see, that there is due from the province of Quebec, under agreement, to share the Jacques Cartier bridge, \$744,425. How long back does this amount date?

The WITNESS: I am afraid I cannot say, sir. I think you would have to ask the Harbours Board. I did not bring with me a complete file on every crown corporation.

The CHAIRMAN: Now, that completes pretty well the examination of the—

Mr. HARKNESS: I would like to ask; in the Northern Transportation, they show cash on hand of nearly \$2,500,000. I happen to know that they have had quite large profits for several years. They have during that period renewed their fleet of tugs and barges, which they have, and I think it shows in the report, pretty well depreciated. What is the necessity of their holding this amount of cash?

The WITNESS: Well, sir, in the year immediately following the financial statement, they had very heavy cash disbursements for capital expenditure, because they are playing a very active part in the servicing of the contractors on the DEW line. They were to acquire a substantial number of additional barges and other forms of transportation for the servicing of that very large and new activity.

The CHAIRMAN: Well, gentlemen, that completes pretty well the larger items that are—

By Mr. Harkness:

Q. There is the one item of Polymer. What is the situation there?—
A. That, sir, is on page 106.

I appreciate the fact that Polymer have put in comparable figures for the preceding year. They had cash at the close of their fiscal year of \$3,000,000. They had short-term investments of \$2,000,000, so they had liquid assets of about \$5,000,000. They had current liabilities of almost the same amount. Their total sales in the year were \$53,000,000 which, again, would indicate a not unreasonable relation between the scale of operations and the cash on hand. It may well have been that there were other capital expenditure programs; I cannot say.

Mr. Balls tells me they also had an expansion program at the time for which the cash was required. I understand a dividend was paid just after the end of the financial year. They paid a dividend of \$3,000,000 shortly after the close of the year:

Q. Well, that figure should then be really reduced by the amount of \$3,000,000?—A. No. I am sorry, the \$3,000,000 was for the full year. They pay us a quarterly dividend of less than one-quarter of \$3,000,000, and then after the close of the fiscal year give us a special dividend. My recollection is, and I might be wrong, that they paid us \$500,000 quarterly, and \$1,000,000 at the end of the year.

The CHAIRMAN: Well, as I have tried to say twice before, this seems to complete pretty well the explanations concerning the balances in the crown

corporations to which Mr. Sellar drew our attention under section 96 of his report. Are there any more questions anybody in the committee wants to ask?

If not, we might adjourn.

Mr. Taylor, I think I will be expressing the opinion of everybody in the committee here in thanking you and Mr. Balls for attending, and thanking you both for the very interesting and full explanations you have given us.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

Government
Publications

1956

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: CHARLES A. CANNON, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

THURSDAY, MAY 10, 1956

WITNESS:

Mr. R. G. Robertson, Deputy Minister, Department of Northern Affairs
and National Resources.

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Charles A. Cannon, Esq.,

Vice-Chairman: A. J. P. Cameron (*High Park*), Esq.,
and Messrs.

Anderson	Hanna	Mitchell (<i>Sudbury</i>)
Applewhaite	Harkness	Monteith
Argue	Henderson	Nowlan
Ashbourne	Hollingworth	Pommer
Balcer	Holowach	Poulin
Beaudry	Houck	Power (<i>St. John's West</i>)
Boisvert	Kickham	Proudfoot
Breton	Kirk (<i>Antigonish-</i>	Rea
Bruneau	<i>Guysborough</i>)	Regier
Buchanan (1)	Laflamme	Rowe
Cavers	Leduc (<i>Jacques Cartier-</i>	Schneider
Cloutier	<i>Lasalle</i>)	Stewart (<i>Winnipeg</i>
Denis	Maltais	<i>North</i>) (2)
Fulton	McGregor	Thomas
Goode	McLeod	Tucker
Hamilton (<i>Notre Dame</i>	McWilliam	Van Horne
<i>de Grâce</i>)	Menard	Weaver
		Zaplitny

Antonio Plouffe,
Clerk of the Committee.

(1) To replace Mr. Balcom as of April 13.

(2) To replace Mr. Noseworthy deceased on March 31.

ORDERS OF REFERENCE

THURSDAY, May 10, 1956.

Ordered,—That the quorum of the said Committee be reduced from 15 to 12 Members and that Standing Order 65(1)(e) be suspended in relation thereto.

Attest.

FRIDAY, April 20, 1956.

Ordered,—That the name of Mr. Rea be substituted for that of Mr. Mitchell (*London*), on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

THURSDAY, May 10, 1956.

The Standing Committee on Public Accounts begs leave to present the following as its

SECOND REPORT

Your Committee recommends:

That its quorum be reduced from 15 to 12 members and that Standing Order 65(1)(e) be suspended in relation thereto.

Respectfully submitted,

Sgd. (CHARLES A. CANNON)
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, May 10, 1956.

(9)

The Standing Committee on Public Accounts met this day at 11 o'clock. Mr. Charles A. Cannon, Chairman, presided.

Members present: Messrs. Anderson, Applewhaite, Ashbourne, Cameron (*High Park*), Cavers, Harkness, Henderson, Hollingworth, Holowach, Leduc (*Jacques Cartier-Lasalle*), Menard, Mitchell (*Sudbury*), Monteith, Pommer, Poulin, Schneider, Thomas and Weaver. (19)

In attendance: Mr. R. G. Robertson, Deputy Minister; Mr. F. J. G. Cunningham, Director, Northern Administration and Lands Branch; Mr. F. A. G. Carter, Administrative Officer; Mr. M. A. Packwood, Supplies and Shipping, Department of Northern Affairs and National Resources.

The Committee resumed its examination of the Public Accounts (1955), particularly paragraphs 34 and 45 of the Auditor General's Report thereon, dealing with the Department of Northern Affairs and National Resources. Mr. Robertson was called and made a statement on the above-mentioned paragraphs and was questioned.

The Chairman expressed to Mr. Robertson and his officials the appreciation of the Committee.

Mr. Robertson was retired.

On motion of Mr. Cavers, seconded by Mr. Schneider,

Resolved,—That a recommendation be made to the House to reduce the quorum from 15 to 12 members.

Before adjournment, the Chairman asked those members of the Subcommittee on Agenda and Procedure present to kindly remain for a short meeting.

At 12.15 o'clock p.m., the Committee adjourned to the call of the Chair.

Antonio Plouffe,
Assistant Chief Clerk of the Committee.

EVIDENCE

MAY 10, 1956.

The CHAIRMAN: Order gentlemen, we have a quorum. The business of this meeting is in connection with paragraphs 34 and 45 of the Auditor General's report. In paragraph 34 he refers to the Department of Northern Affairs and National Resources and he has this to say:

With respect to payments approximating \$60,000 recorded as expenditures on the strength of the certificates, it was observed that charges were made to the old year's vote although (a) no deliveries were made to railhead until late in April, (b) some cheques bearing an April date were released only on 10 May, and (c) a further 75 cheques totalling \$55,746 were drawn in April of which 28, representing \$8,660, were still being held at the time the audit was completed in August.

We have with us this morning Mr. R. G. Robertson, Deputy Minister for Northern Affairs, Mr. F. J. G. Cunningham, Director, Northern Administration and Lands Branch, Mr. F. A. G. Carter, Administrative Officer and Mr. M. A. Packwood who is connected with supplies and shipping. These gentlemen are here to give the committee all necessary and useful explanations concerning the matters brought up in Mr. Sellar's report.

Mr. R. G. Robertson, Deputy Minister, Northern Affairs, called:

The WITNESS: Mr. Chairman and gentlemen. My purpose in this statement will be to try to explain in part what the procedures are in regard to purchases and supplies of the Northern Administration and Lands Branch and particularly to deal with the points which are made in the Auditor General's report.

At the outset, perhaps I should say that the comments of the Auditor General in paragraph 34 which you have just heard are entirely correct and accurate. We do not dispute the accuracy of them in any way.

What I wish to make clear in the course of my statement will be in the first place the background of the operations of the Northern Administration and Lands Branch which requires or has required certain procedures to be followed. In the second place, I wish to make it clear that in no case has payment been made for any item which was not delivered or shipped before March 31 of the relevant year, that is March 31, 1955. The third main point is that no part of the procedure which has been followed, which was followed in that year, is in any way an infringement of the Financial Administration Act or of any rule or regulation of the treasury under that act.

If I may, Mr. Chairman, I could give some general background on the operations, which may explain the position.

The CHAIRMAN: I think that would be a good idea.

The WITNESS: In the first place for most departments there is a certain measure of specialization. For the Northern Administration Branch, operating in the north, there is almost no specialization: it deals with almost every aspect of life in almost every part of the north. It runs schools, operates a reindeer herd, builds roads and buildings, provides relief to Eskimos and does virtually everything you could think of in regard to all aspects of life in the north.

The range of supplies which have to be ordered and shipped by the branch go from Pabulum for Eskimo babies on to an \$800,000 rock crusher at Aklavik, from appointment for reindeers to electric generators and from creosote to wolf traps. Everything comes into the picture. It covers an area beyond Great Whale river on the southeast corner of Hudson Bay which is the furthest south and as far north as Craig Harbour on Ellesmere Island and from the east coast of Baffin Island as far west as the western part of the Yukon. It covers all this range of items and all that range of area.

In that entire area there are only, with a few minor exceptions, two means of transportation—one is air, which is too expensive for most supply services and the other is water. Virtually all the supplies go by water. To the eastern Arctic the supplies go from Montreal and the shipment begins usually in July and ends in September. There is a three month period in which all shipments must be made. For the western Arctic the shipments usually go from Waterways, Alberta, via the Slave-Mackenzie river system. The Great Slave lake usually opens about June and the Mackenzie river begins to freeze about September, so again there is about a three months' transport season, in which everything of this variety has to be moved. This complicates the situation, but in addition to that for all the construction projects there is only about a three months' construction season. It may be four months, dependent on the particular location with which one is dealing. Therefore, on any construction item to be handled in the north, there are the hazards of a short transportation season and a difficult transportation system. There is usually no storage available at the place to which the shipment is going, so items have to be shipped to try to get there at the time at which they will be required and not get there too far in advance. There is the problem of inadequate labour force with very little flexibility. Usually you cannot get what you want at short notice in terms of labour. In short, there are all kinds of hazards which get in the way of the construction program.

In addition to these natural hazards, for the last few years we have had a situation in which requirements in the north have been changing very rapidly. It has been almost impossible to know very far in advance in detail just what is going to be required at any particular point.

All these hazards and changing situations fit into a picture in which requirements have to be estimated several months in advance.

To show just how this has to be done, take the case of Aklavik at the present time. Our sub-district administrator in Aklavik is working out his requirements for the summer of 1957. His statement of requirements has to be in the hands of our district administrator in Fort Smith in June. At this present stage, when he is making out the requirements for 1957, the ice probably is not fully out of the Mackenzie river and none of his supplies for this year have arrived and his construction season for 1956 has not started. He does not know what hazards may hold up construction this year, yet he has to give a firm outline of requirements for 1957. It is on the basis of these requirements as they come in from all the points in the north that the estimates are prepared in detail.

That is the background and in that sort of situation the inevitable result is that plans do not go just exactly as they have been planned. Perhaps certain deliveries are held up, perhaps a certain construction project does not get as far advanced as was thought it would get, perhaps another construction project

goes more rapidly than had been thought or perhaps a new requirement crops up in the course of the year. The result of this is that in the operations of the northern administration branch there are almost inevitably quite a number of requirements which have to be ordered in the later months of any fiscal year. When requirements have to be ordered in that way we try to get the goods we want in one of three fashions. One is to get them delivered to a common carrier by the supplier before March 31 for shipment to the f.o.b. point which is designated in the purchase contract. That f.o.b. point will usually be Montreal for the eastern Arctic or Waterways for the western Arctic. The second way is that the item may be delivered by the supplier to a warehouse at the f.o.b. point. In exceptional circumstances it is arranged that the item which is produced may be held by the supplier free of charge in his own factory until the shipping date for the particular region in the north. The reason why Waterways and Montreal have been selected as the f.o.b. points is that by using these common points the suppliers add on the freight from their particular location to the f.o.b. point and we can get a realistic comparison of the different tenders from different suppliers.

The Auditor General's comments in paragraph 34 of his report deal first with the question of goods for which delivery was accepted at factories. The main reason why this is done is that in certain circumstances the manufacturer may produce an item—say a caterpillar tractor for Aklavik—and have it ready in January, whereas we know it cannot be shipped from Waterways until May. The alternative would be to have it shipped and stored if storage were available at Waterways. As is frequently the case, the manufacturer has storage space in Montreal. It is certified as being for the department and held in the manufacturers' storage in Montreal until the shipping can leave. Now, in all those cases, the point I would like to mention is that the actual item is seen by a member of the department in person. If there are serial numbers, those serial numbers are taken; the name of the department is marked on the item; it is clearly identified as the department's item and payment is not made at that point notwithstanding the fact that the item has been identified. The payment is not made until evidence has been received that the equipment has been delivered to a common carrier. In other words, the item is identified in fact but not paid for until it actually is delivered to the common carrier. The evidence of delivery required is either a bill of lading of the common carrier or a delivery form which is made up by the supplier and receipted by the common carrier. The Auditor General refers to some \$60,000 worth of supplies which were accepted in this way at factories. Actually, in 1955, there were supplies valued \$102,589 accepted in this way. The \$60,000 worth were items going to Aklavik. The remaining \$42,000 worth were items going to the eastern Arctic.

By the Chairman:

Q. Could you tell us what those items were which were going to Aklavik? —A. Yes. The items going to Aklavik were four orders: one was for five dump trucks from Ingram Motors Limited. Another was for a truck mounted shovel, \$23,000. Two orders were for parts for the shovel, one of \$2,000 and the other of \$657. That made a total of \$60,100.

Q. I think you did not give us the amount of the first item.—A. The five dump trucks cost \$33,243. That made a total of \$60,116. All were designated for Aklavik.

By Mr. Cavers:

Q. From whom was the mounted dump truck ordered?—A. There were five dump trucks from Vic-Ingram Motors Limited. They were made at Yellowknife but the shipment would take place from Windsor. The other item, the shovel, was from Automotive Products Limited of Montreal.

By the Chairman:

Q. And the spare parts also?—A. The spare parts also were from the same source. In each case the item referred to was held in the factory after being identified by a member of the department as being the item required. Now, in the case of this equipment, if it could not have been accepted in this way, the cost of the purchase would have become a first charge against the main estimates of the following year. This would have seriously disrupted the plans for the following year because it would have used up funds which were required for other items which have been included in the main estimates. If they had not been charged against the main estimates but we had waited for the supplementary estimates, which are usually not approved until June, this would have been too late to get the items from here to Aklavik for the construction season.

As I have mentioned, the remaining supplies accepted at the factory and valued at \$42,473 were almost entirely destined for Frobisher Bay or other points in the eastern Arctic. As I have mentioned, in the case of all this equipment, it was accepted by department officials in person before the 31st March, 1955. It was considered that the goods had in effect been supplied prior to March 31 but payment was withheld, simply as a precautionary measure, until evidence was received that deliveries had been made to the common carrier.

In addition to the \$102,000 covering items accepted at the factories, we also drew cheques to cover an additional \$13,273 worth of supplies which were not accepted at factories but which we in the department had reason to believe had been delivered, because of promised delivery dates. We had reason to believe they had been delivered to common carriers before March 31. The authority for paying for supplies on the basis of evidence of such delivery was given in a letter from the office of the Comptroller of the Treasury dated March 14, 1952. The reason for making payment on the basis of the evidence of delivery to a common carrier is that the suppliers expect to be paid for the goods within a reasonable period. We have no personnel nor supply depots at Waterways or at Montreal and it would be time-consuming and costly to uncrate all items to check them at these points. The only point where a proper physical check can be made is at the ultimate destination. At Waterways and at Montreal the goods are taken over on our behalf from common carriers making delivery, by the common carriers who will take them on to their final destinations.

If we waited until the supplies reached their ultimate destinations, the suppliers would not be paid for periods ranging from four to eight months. We would likely be subject to interest charges and would lose discounts. We have followed the present practice of paying on the basis of evidence of delivery to a common carrier for a number of years, and have never had any difficulty in making adjustments with suppliers. No funds have ever been lost because of the system.

The CHAIRMAN: Before you go on, you mentioned the letter of May 14, 1952, from the office of the Comptroller of the Treasury. I think it would be a good thing if you put it on the record at this point.

The WITNESS: Would you like me to read it?

The CHAIRMAN: Yes, please.

The WITNESS:

Col. F. H. Collins,
Chief Treasury Officer,
Dept. of Resources and Development,
Ottawa.

*Payment for materials shipped to
points in the Northwest Territories.*

In reply to your letter of 2nd May, it is confirmed that it will be in order for you to pay suppliers' invoices covering materials shipped to places in the Northwest Territories on the strength of bills of lading or other like documentary evidence establishing proof of delivery to a common carrier.

You will understand, of course, that the accounts must also be certified as to price, as required by the Financial Administration Act.

(Sgd.) J. O. Hodgkin,
Asst. Comptroller of the Treasury.

Ottawa,
May 14, 1952.

By Mr. Harkness:

Q. Before you go on, what about the \$8,660 worth of cheques which were still being held at the time of the audit in August?—A. Mr. Chairman, I think if I could continue that will be dealt with.

The Auditor General has also commented on the question of drawing cheques and then holding them for lengthy periods. It should be emphasized that in no case was payment made for any goods that had not either been accepted at factory before March 31 or delivered to a common carrier before March 31. We are of the view that the holding of cheques for long periods is not good accounting practice and new arrangements have now been made. To the best of our knowledge there is no specific regulation against this practice. We think, since the Auditor General has pointed it out, that it is not a good practice and we are discontinuing it. I can explain to you the circumstances under which it was done.

The CHAIRMAN: At the time you did it it was not forbidden?

The WITNESS: Even now it is not forbidden. The cheques were drawn in the month of April, 1955, totalling \$115,862.59 against 1954-55 funds to cover items accepted at factories, or that we had good reason to expect had been delivered to common carriers before March 31. As it turned out, proof of delivery before March 31 was furnished to cover all but \$1,043.86 of this amount and seven cheques totalling \$1,043.86 were cancelled in September of 1955, by which time it had been ascertained that delivery of the items concerned had been made to the common carriers after March 31.

Of the total amount, cheques valued at \$64,157.44 were released in May, \$40,721.48 in June, and the remaining \$9,939.81 were released over the period from July to September as evidence was received. The suppliers, in some cases, did not seem to appreciate that it had to be proof of delivery on or before March 31, 1955, and the reason that the cheques were held in some

cases for a lengthy period was that there had been protracted correspondence with suppliers before we got the necessary proof of delivery.

I mentioned to Mr. Harkness, sir, that a change has been made. Arrangements have now been made that no cheques will be requested from the treasury office unless the invoice and proof of delivery before March 31 to a common carrier have been received. We will not now ask for cheques until we have the evidence.

By Mr. Applewhaite:

Q. Does that mean that no cheques are going to be asked for and that you are not going to immediately pay the suppliers?—A. We will now require that we have the bill of lading or the receipted certificate of delivery before we ask for the cheque. What we had done hitherto was, in cases where we knew the items had been identified at the factory or had good reason to think they had been delivered to a common carrier, on the statement of that we would ask for the cheque if it was toward the end of the fiscal year but we would not release the cheque until we had the evidence. Now we will have the evidence first and then ask for the cheque.

By the Chairman:

Q. And if you do not get the evidence in time there will be no payment?—A. We will have to pay the amount elapsed out of the following year's funds. This new procedure will make a good deal of extra work in following up orders to make sure invoices and bills of lading, and so forth, are received quickly. It will also mean that in many cases this evidence will not be received before April 30, and payment will have to be made from the next year's funds, to the detriment of the new year's program.

Arrangements have also been made at a cost of about \$2,000 to provide warehousing space at Montreal where certain supplies purchased from 1955-56 funds can be held pending onward transmission. We are doing this in an effort to reduce cases where we accept delivery at factories. Only in the most urgent circumstances will goods be accepted at the factory in future and in those cases the purchase orders will be amended to give the f.o.b. point as at the factory, so we can take delivery and give payment at the factory.

We believe that nothing has been done that was not in keeping with the spirit and purpose of parliamentary appropriations. We had the concurrence of the treasury office in all transactions and no regulations existing at the time were contravened. We are of the view that difficulties can arise through the holding of cheques for a lengthy period, and that practice has been amended.

I think that that covers the general points which I wished to make in explanation of this.

Q. There is one point which I think you might explain in more detail; that is an explanation of section 29 of the Financial Administration Act in connection with obtaining authority from the treasury board.—A. Would you like me to read the section?

Q. It would be a good idea. Would you also explain to the committee how it applies?—A. Section 29 of the Financial Administration Act reads as follows:

At the commencement of each fiscal year or at such other times as the treasury board may direct, the deputy head or other officer charged with the administration of a service for which there is an appropriation by parliament or an item included in estimates then before the House of Commons shall prepare and submit to the treasury board through the comptroller a division of such appropriation or item into allotments in the form detailed in the estimates submitted to parliament for such appropriation or item, or in such other form as the board may prescribe, and when approved by the board the allotments shall not be varied or

amended without the approval of the board, and the expenditures charged to the appropriation shall be limited to the amounts of such allotments.

Now, Mr. Chairman, to refer back to the 1954-55 estimates, the cases that were involved in the Auditor General's comments deal with four votes; they were votes 323, 324, 325 and 326 of that year. To take just one, vote 323:

Northwest Territories, including Wood Buffalo park and Eskimo affairs—

323. Operation and maintenance.

That vote was broken down in the blue book into about seventeen primary allotments with the totals for extra primary allotment. The situation is that the department can spend, for the purposes of each allotment, up to the amount that is specified in the blue book; but if for any reason it wants to make an expenditure beyond the amount shown for that allotment it has to go to the treasury board and if there are adequate funds available in the fund for other allotments it can seek a transfer from one allotment to the other.

Q. As long as it is in the same vote?—A. Yes.

Q. That is the practice followed by your department?—A. It is followed by all departments and is provided for by section 29.

By Mr. Applewhaite:

Q. Will the adoption of this new system of drawing cheques only when you are able to make payment result in a large number of re-votes and estimates year after year?—A. Mr. Chairman, it will result probably in more re-votes, but by following up these things closely we think that it should not result in a lot of re-votes. We will try to keep the number down because it throws out our operations for the following year.

By the Chairman:

Q. Are there any further questions on paragraph 34 of the Auditor General's report? If not, Mr. Robertson will have some remarks to make on paragraph 45 of the Auditor General's report concerning the council of the Northwest Territories.—A. Mr. Chairman, in paragraph 45 of the Auditor General's report, the Auditor General referred to the travelling and living allowances of the members of the Northwest Territories Council and he said:

The point of audit concern is the use of an ordinance instead of having practice regulated by act of parliament, because (a) five of the nine members are appointed by the crown, therefore it seems desirable that the independence of the elected members be safeguarded, and (b) it is a constitutional rule that no loan out of public funds should ever be made to an elected representative of the people without the sanction of the appropriate legislative authority, which in this instance would appear to be the parliament of Canada. Reference is now made to the subject because it was observed that two advances remained outstanding for many months.

With respect to point (b) which the Auditor General makes, our view is a different one to his. I do not think that the appropriate instrument in this case, the appropriate legislative authority, should be a specific act of parliament. We think the appropriate legislative authority is an ordinance of the Northwest Territories passed under the enabling provisions of the Northwest Territories Act. I might explain how this is handled which may make it

clearer. The Northwest Territories Act provides for indemnity for members of the Northwest Territories council and also provides, in section 12(2), for the payment of travelling and living expenses. Section 12(2) says:

In addition to the payments under subsection (1), each member of the council, whether elected or appointed, may be paid, (a) the actual travelling expenses incurred by him in travelling from his place of residence to the place where the council holds its session and return, but no payment shall be made to a member in respect of more than one return trip for each session of the council, and (b) an allowance for living expenses, not exceeding fifteen dollars for each day in which the council is in session...

In other words, Mr. Chairman, this is a provision that authorizes payments to be made. Under the authority of that provision and under the authority of section 19 of the act which permits the commissioner and council to make payments out of the revenue account, it is much the same as the appropriate act of parliament with respect to federal expenditures. Under the appropriate ordinance this year, item 612, the indemnity for elected members of the council is \$8,000, and under item 613 for travelling and living allowances of members it is \$12,517. This is the legislative authority under which these payments are made. In our view this is the proper legislative authority for such payments.

The other point which the Auditor General makes is that five of the nine members of the council are appointed by the crown and therefore it seems desirable that the independence of the elected members be safeguarded. On that, Mr. Chairman, all I can say is that the appropriations are always in general terms and that there is never any distinction drawn between the elected and the appointed members, and there has never been one case in the entire history of the council when it was divided on the point of appointed versus elected members. So, I do not think there is any need for protection.

Q. In connection with your view to the effect that the matter of providing funds for travelling expenses is a matter of concern to the Northwest Territories council rather than to the parliament of Canada, would it not be appropriate to draw a parallel there by making a comparison between the Northwest Territories council and a provincial government? After all, a provincial government provides for the indemnities and travelling expenses of its members of parliament, and do you not think that the Northwest Territories council is more or less in the same position as far as the indemnities and travelling expenses of its members are concerned?—A. I think so, sir. I think, in general, the position of the council is that it has the legislative authority of a province except for natural resources. The other exception, of course, is that an ordinance of the council can be disallowed within two years by the governor in council. With these exceptions, it is in exactly the same position as a provincial legislature.

By Mr. Harkness:

Q. Is the point not that the indemnity and travelling expenses are provided for by a federal act of parliament?—A. They are not. If you mean the amount of money is provided, that is not the case. The amount of money is provided out of the Northwest Territories revenues.

Q. But the legislative authority for paying the expenses—

The CHAIRMAN: You might allow Mr. Robertson to finish.

The WITNESS: I was going to say that the revenues of the Northwest Territories are made up much the same way as the revenues of a province are made. There is a tax agreement with the federal government which provides a large source of revenue and there are other sources of revenues like liquor

revenues and taxes within the Northwest Territories. The Northwest Territories Act authorizes the commissioner in council to make expenditures out of the Northwest Territories revenues, and section 12 is a particular authorization with respect to the expenses of members of the council. But these are just empowering sections, and then the council is empowered to pay the expenses out of the Northwest Territories revenues.

By Mr. Harkness:

Q. There is an act which we passed last year which provides for the indemnity and for the travelling expenses.—A. Mr. Chairman, the act was amended last year. It was amended to change the indemnities. The indemnities are specifically provided as to maximum amounts and minimum amounts. These were stated in the amendment to which Mr. Harkness refers. The travelling and living expenses were not changed. Those are the ones contained in the Northwest Territories Act which is included in the revised statutes of 1952.

By the Chairman:

Q. Was that amendment in force in the fiscal year to which the Auditor General's report applies?—A. No. The amendment was not in force in that year; but the amendment does not affect the expenses to which he referred. That section which relates to expenses simply says that each member of the council may be paid actual travelling expenses and an allowance for living expenses not exceeding \$25 a day.

By Mr. Monteith:

Q. The Auditor General refers to: "Reference is now made to the subject because it was observed that two advances remained outstanding for many months." I wonder if Mr. Robertson has anything to say on that?—A. Yes. Two advances were accounted for—

Q. First of all, what do you mean by advances?—A. Suppose that a session is going to be held, like the session of the council which was held in January of this year, and the members, say, in Aklavik and in Fort Simpson and Fort Smith, are sent cheques in advance of the session to provide for their living and travelling expenses in order to come to the session in Ottawa. This is necessary because most of the members do not have any private means or any means of any consequence at all. After they have come to the session and return to their place of residence they are supposed to submit an itemized account of their travelling expenses and a statement of the days for which they are entitled to living expenses, and to make refund of whatever the balance is of their advance. In two cases there was a considerable delay in getting those back. In one case I think it was because the member was a new member and did not understand the procedure. In another case it was because of the difficulties regarding transportation. In Aklavik you have six months when you cannot get mail in and out, and also the member at this place is a trapper who is out for a considerable period.

By Mr. Cavers:

Q. What is the usual length of a session?—A. Normally from a week to ten days.

Q. And there are two sessions each year?—A. Yes.

By Mr. Applewhaite:

Q. Is the Auditor General of Canada the Auditor General of the Northwest Territories Council?—A. The Northwest Territories revenues are a special account in the Consolidated Revenue Fund and they do come under the Auditor General's audit in that respect.

Q. In the auditing of the revenue and disbursements of the Northwest Territories Council does the Auditor General report to the Council?—A. No.

Q. The only report which he makes is to the parliament of Canada?—A. That is right, sir.

The CHAIRMAN: Has the committee finished with the witness?

Then, if there are not any more questions, it only remains for me to thank you, Mr. Robertson, for coming and for having given this very excellent and clear explanation. I would also like to thank the other gentlemen for their attendance.

Gentlemen, before you go, first I would like to ask the members of the steering committee to remain. Secondly, as we waited for nearly half an hour before we had a quorum today, I think I should bring up again the matter of reducing the quorum. Last time I suggested that it be reduced from 15 to 10. I would like to know what the feeling of the committee is on that point after our experience this morning. What do you think, Mr. Harkness?

Mr. HARKNESS: I certainly do not like sitting around for half an hour in order to get the proceedings started, but, it seems to me, in view of the number of people on this committee, that reducing the quorum to 10 should not be necessary.

The CHAIRMAN: Perhaps we might reduce it to 12.

Mr. CAVERS: I would suggest it be reduced to 12.

Mr. APPLEWHAITE: I would like to express the opinion that if there are not 15 members who are sufficiently interested to attend that you might as well wipe the committee out.

The CHAIRMAN: Your argument would apply to all other committees of the house.

Mr. APPLEWHAITE: Yes.

The CHAIRMAN: All other committees reduced their quorum. Are there any other remarks on this?

Mr. CAVERS: Mr. Chairman, I would move that for the subsequent meetings of the committee the quorum be reduced from 15 members to 12 members.

The CHAIRMAN: Mr. Schneider is the seconder.

Motion agreed to.

Mr. POMMER: What is it proposed that our item of business will be at the next meeting?

The CHAIRMAN: I thought that I should have a meeting of the agenda committee to decide that.

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

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Vice-Chairman: A. J. P. Cameron (*High Park*), Esq.,
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Balcer	Houck	Proudfoot
Beaudry	Kickham	Rea
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Denis	McGregor	Tucker
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Hamilton (<i>Notre-Dame-</i>	Menard	Zaplitny
<i>de-Grâce</i>)	Mitchell (<i>Sudbury</i>)	
Hanna	Monteith	

Antonio Plouffe,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, July 5, 1956.

(10)

The Standing Committee on Public Accounts met this day at 11 o'clock a.m. The Chairman, Mr. Charles A. Cannon, presided.

Members present: Messrs. Applewhaite, Ashbourne, Breton, Cannon, Cavers, Cloutier, Denis, Hamilton (*Notre-Dame-de-Grace*), Harkness, Kirk (*Antigonish-Guysborough*), Laflamme, McGregor, Menard, Mitchell (*Sudbury*), Monteith, Schneider, and Thomas—17.

In attendance: From the Department of Defence Production: Mr. D. A. Golden, Deputy Minister, Mr. G. W. Hunter, Assistant Deputy Minister, Mr. J. M. Dymond, Director, Gun Branch, Mr. R. M. Keith, Financial Advisor, Mr. E. C. Perkins, Contracts Review Officer.

The Committee resumed its study of the Public Accounts (1955) Books I and II, in particular Paragraph 36 of the Auditor General's Report thereon, relating to the production of 3"/50 Twin Mount Gun Contracts.

Mr. D. A. Golden was called and made a statement on the production costs of said guns and the comments thereon of the Auditor General.

In the course of his examination, Mr. Golden was assisted by Messrs. Hunter, Dymond and Perkins. He tabled the following document which was ordered printed: (*See Appendix I*)

Comparison of production costs between U.S. and Canadian contracts based on costs as at February 29, 1956 (3"/50 Twin Mount Gun Contracts, Sorel Industries Limited).

Mr. Golden was questioned.

Information was requested with respect to:

- 1 - Figures for board paid by employees of Sorel Industries Limited (staff boarding)
- 2 - Percentage of cost on parts and materials imported from U.S. for all guns manufactured by Sorel Industries Limited.
- 3 - Total payments to Sorel Industries Limited for production of guns and amounts paid by U.S. through Canadian Commercial Corporation for guns shipped to U.S.

The above was ordered appended to this day's proceedings (*see Appendix II*).

Mr. Golden's examination was concluded and he was retired.

The Chairman expressed the Committee's appreciation to Mr. Golden and his officials and at 12.50 p.m. the Committee adjourned to the call of the Chair.

Antonio Plouffe,
Assistant Chief Clerk of Committees.

EVIDENCE

July 5, 1956.

11.00 A.M.

The CHAIRMAN: We have a quorum, gentlemen. We were examining the Auditor General's report and we got to paragraph 36, in which he drew attention to the fact that there was a difference in the price between guns manufactured for the United States navy, and guns manufactured for the Canadian navy. Mr. Sellar was unable to answer all the questions that were asked of him at that time.

On page 64 of the printed report of the proceedings of our committee I said the following to Mr. Harkness: "I gave that undertaking before, Mr. Harkness, that if it was the desire of the committee, at the suggestion of any member of the committee, to assign people from the department to go into a transaction in detail, that it would be done." So to carry out that undertaking I have here this morning Mr. Golden, the Deputy Minister of the Department of Defence Production, and Mr. G. W. Hunter, the assistant deputy minister of the same department, and Mr. J. M. Dymond, the director of the gun branch.

Mr. Golden has a statement to make to the committee. After he has made this statement he will be at the disposal of the members of the committee to answer any questions.

Mr. D. A. Golden, Deputy Minister, Department of Defence Production, called:

The reference by the Auditor General in item No. 36 of his report to a difference of some \$112,000 each in the cost of the 3"/50 twin mount A/A guns to the U.S. and Canadian governments was based upon the best estimates available at the time of his examination. A more recent estimate, which is very close to actual costs, shows the difference to be \$102,450. This contract was carried out by Sorel Industries Limited of Sorel, P.Q.

Apart from minor extras for special type fire control required by the Canadian navy, duties and taxes included in the Canadian but not the U.S. cost, and the cost of certain parts furnished on a "free issue" basis by the U.S. government but for which the Canadian contract was naturally chargeable, the difference in price is accounted for mainly by three classes of expenditure which were considered to apply to Canadian account only, inasmuch as they relate to the re-establishment of Canada's only facility for the production of heavy guns which were urgently required by the Services at the outbreak of the Korean war.

The first of these items is preproduction and learning expenses, which totalled \$1,525,428, or \$33,158 per mount produced for Canadian account. This amount represented general overhead costs of the first year's operations in excess of the amount of overhead which could be properly absorbed in the relatively small volume of production during that period, bearing in mind that the plant had to be reactivated and staffed from a virtual shutdown condition. Included in this amount are the costs of recruiting and training some 4,000 employees, many of whom had had no previous experience in this type of work since, due to the rapid expansion in the defence industry in the Montreal area during the same period, it was necessary to draw heavily upon the population

of the immediate vicinity of Sorel who were largely unskilled in production techniques. In order to obtain the necessary complement of engineering and technical personnel to direct operations, it was necessary to go as far afield as the West Coast and the United Kingdom and to arrange for their transport to Sorel.

The second major item in the category of charges which were considered to relate exclusively to the establishment of a Canadian facility for heavy gun production was the cost of plant and staff house rehabilitation, totalling \$908,453, or \$19,879 per mount. This expenditure covered the cost of rehabilitation and rearrangement of plant and equipment in order to place them in an operating condition after a five-year period of idleness. This item also includes an amount of \$215,000 for the rehabilitation of staff houses, which had fallen into disrepair during the period, but which were most essential due to the grave housing shortage which existed in Sorel at that particular time.

The third item of expenditure of a similar nature represented a portion of the settlement made with the contractor to compensate for the cost of maintaining this highly specialized facility (which had little or no economic commercial use) during the period from 1945 to 1950, which amounted to \$1,338,436, or \$35,074 per mount. This charge, relating as it did to a prior period, was not applicable to current production for U.S. account, but was apportioned over all Canadian contracts for the three-year period from 1951 to 1953 inclusive. In this way, the standby maintenance costs (which, incidentally, were non-profit-bearing) were completely segregated from production costs and profit thereon, and permitted contractual negotiations with Sorel Industries Limited to be carried out on the same basis as other defence contractors who were not in this position.

While it is true that the recorded price of guns for Canadian account exceeded the price to the U.S. navy, it should be remembered that the charging of standby maintenance, rehabilitation, and preliminary expenses to Canadian account will benefit all subsequent Canadian gun production carried out by this facility. A further advantage to Canada which should not be overlooked is that the U.S. order for 180 guns (contrasted with Canada's 46) absorbed approximately four-fifths of the fixed overhead charges relating to this contract, and resulted in substantial cost reductions by reason of increased efficiency over the greater production run, which were shared equally by both governments.

By Mr. Harkness:

Q. In his report, Mr. Sellar states, "In lieu of the first arrangement it offered \$45 million for the production of 180 guns, and this was accepted". What was the first arrangement?—A. I think the first arrangement was a price-to-be-negotiated basis, and the first order was for a number substantially less than the number of guns ultimately ordered by the United States.

Q. You say it was to be a negotiated basis. Was there no definite figure in this first arrangement?—A. There was a figure, yes, for estimating purposes, and for funding purposes, as I recall it.

Q. Have you got a copy of this first arrangement?—A. Yes, I am sure we have. The first document that I have here refers to 40 mounts, and it says it is estimated that the definitive contract will be in the amount of \$10 million.

Q. For 40 guns?—A. Yes.

Q. That is about \$6,000 more than the United States finally paid for the guns they did get?—A. Mr. Harkness, the amount included in the first document was the amount put in in order to get the work rolling, and to get contractual negotiations started, and to have something which would permit us to get Sorel going. I do not think the \$10 million at this stage was intended to be definitive in any way.

Q. That was the agreement between the Department of Defence Production and the United States was it?—A. Actually it would be between the Canadian Commercial Corporation and the United States, and then the Canadian Commercial Corporation would request the Department of Defence Production to arrange for production at Sorel Industries.

Q. Then you proceeded from there to make a contract with Sorel Industries?—A. Yes.

Q. What are the terms in the contract with Sorel Industries?—A. There are quite a number of contractual documents which went forward, but by and large our arrangement with Sorel would be back to back with the arrangement that Canadian Commercial Corporation had with the United States navy.

Q. What do you mean, "back to back"?—A. The same terms.

Q. In other words they were going to get approximately \$250,000 a gun?—A. The first document that I have here to Sorel Industries, which took place before the Department of Defence Production was set up, is in the same terms as the document which Canadian Commercial Corporation got from the United States navy.

Q. That would be this \$10 million for 40 guns?

The CHAIRMAN: Does it mention a figure?

The WITNESS: It mentions a limitation on the expenditure of \$8 million, which was the amount referred to in the American letter of intent, that only \$8 million could be committed, and that is what the document to Sorel said.

By Mr. Harkness:

Q. When did the other arrangements with Sorel Industries—who made them, and when were they made in regard to these three items of expenses, which they were allowed: the plant and staff house rehabilitation, \$908,000; the plant maintenance costs, covering partial compensation for the expense of retaining this facility? How much was the total of that? Or, in other words, could you tell us what contracts there were with Sorel in regard to the other expenditures they were to be allowed, particularly these items which amounted in total to \$112,000 per gun extra which Canada paid?—A. These were arrangements made between the department and Sorel Industries without any indication at that time to Sorel as to whether the United States government, or the Canadian government would be the government that would finally pay that. As far as Sorel was concerned, they were entitled to receive these payments.

Q. What I have not got very clear in my mind is this: what contracts were made with Sorel when the contract was made with them which was back to back with the order for 40 guns from the United States, which was \$10 million, and then you say it was actually a commitment of \$8 million? Now, in addition to that there were apparently contracts made with Sorel to pay them varying amounts for three items. What were these three contracts, or were they one contract?—A. I have a list here of 20 amendments, and 11 further amendments, and 27 further amendments. I am not sure that I can pick out the specific amendment to which you are referring now, Mr. Harkness.

Q. In the statement that you read, which in effect was much the same as the statement Mr. Howe made in the house on Friday, June 29, and which is contained in Hansard for that date on page 5522, there are three items mentioned. Now, the first of these is plant and staff rehabilitation expenses totalling some \$908,000. Now, how was that entered into?—A. The record I have here indicates that amendment No. 23 entered into on March 28, 1955 gives formal instructions relating to the items which you have just mentioned. I think they would, of course, have been negotiating for some considerable time before that.

Q. In other words these various items—what are they in dollars exactly? The first one is \$908,000. The second one is not given in this Hansard evidence. It says it came to \$35,074 per mount.—A. I make it \$88,111 per mount. Is that what you wanted, or do you want the total figure?

Q. No, I want the total figures for these three items. The first item is given as \$908,000 or \$19,900 per gun.

Mr. MONTEITH: That was the second item you read this morning.

The CHAIRMAN: They are in the statement that Mr. Golden gave.

The WITNESS: Perhaps we can add them up. The figures are: \$1,525,428—\$908,453—\$1,338,436. Those are the three items.

By Mr. Harkness:

Q. These were all arrived at after the guns had been produced?—A. No. These figures were arrived at while the guns were being produced.

Q. Did you not just give a date in 1955 which was after the delivery date of most of these guns?—A. I said that the March, 1955, date was the date I have on which the formal document was passed; but that does not mean that that was the time at which the agreement was arrived at.

It is pointed out to me that all these figures would have to be settled finally by the cost inspection and audit division making an audit and issuing a certificate as to the actual cost incurred.

Q. In respect to the original contract that was made with Sorel Industries, you think this was a general approximate cost, \$250,000 a gun, and in addition to that you made an agreement with them, did you, saying that you would pay for these three items depending on what they came to?—A. I think that is substantially correct.

Q. Was that an open agreement, or was there any definite amount settled that you would provide for these three items?—A. I think the nature of the item was agreed to, and the cost would have to be those costs properly incurred in connection with these items, as approved by the cost inspection and audit division of the treasury.

Q. Was this plant in use at all before this thing started?—A. There was some attempt made, on a limited basis, to find commercial production which could take place in this plant, and I understand they were pretty unsuccessful.

Q. You say unsuccessfully?—A. Yes, unsuccessfully; this is a very large and very specialized facility.

The CHAIRMAN: What would be the cost of the facilities in terms of millions of dollars?

The WITNESS: Do you mean the replacement cost or the original cost?

The CHAIRMAN: The original cost.

The WITNESS: About \$25 million.

The CHAIRMAN: Thank you.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Is this sort of happening which we see here normal in a situation of this sort? Have you any comparable example that happened in other Canadian purchases?—A. I am not sure that I get the particular aspect of this transaction which you mean.

Q. First of all, where the United States pays a substantially lower price for a similar unit than the Canadian government, well, let us stop at that point for a moment; where the United States pays a substantially lower price for a unit of production than does the Canadian government.—A. I would regard this as most unusual, and based on most unusual circumstances.

Q. Right; so this is a special case?—A. I would think so, yes.

Q. Right; now could you cite us another supplier of major military equipment to the Canadian government—I just want to use some comparable company as a basis of departure for certain questions I want to ask; what about the Canadian Car and Foundry Company, do they manufacture gun mounts?—A. No, not gun mounts. They have made sales to the Canadian and the United States governments.

Q. Or what about Vickers? Do they manufacture gun mounts?—A. I know of no other plant in Canada which either manufactures or sells similar products; there is no other plant to my knowledge.

Q. All right; you say Canadian Car and Foundry or Vickers would be making sales of heavy material from time to time to the Canadian government for defence purposes.—A. Yes.

Q. All right; what I am trying to find here—not being too conversant with your tendering practice or your contract practice— —A. There was no tendering here at all.

Q. No; this was a negotiated contract?—A. This was the only facility in Canada capable of doing this sort of work.

Q. In the initial stage your department enters into a discussion with Sorel Industries which is designed to lead to the production of gun mounts for the Canadian army?—A. For the navy in this case!

Q. Oh yes, for the navy; and at that point was there any thought in mind that the United States would also be taking any portion of this production?—A. The American order was definitely in contemplation at the time, but in actual fact the Canadian order happened to be placed first.

Q. Right; now the first document which goes into the evidence as I understand it is something which says it envisioned the production of some 40 gun mounts at a total cost of \$10 million. Is that correct?—A. No, that is not correct. I would not regard any of the earlier documents coming from the United States navy as being anything but a reflection of the money which they had set aside for this contract and as a rough estimate of what they thought this contract might require. It would not be any more of a meeting of the minds than that in the early stage.

Q. You did quote a little while ago from an agreement of some type which mentioned 40 guns and \$10 million.—A. Yes.

Q. What is the title of such agreement? What is its legal nature or standing?—A. I think that was a letter of intent. At this time production and getting things rolling was regarded perhaps as more important than having the paper work catch up with it; it was a letter of intent, knowing that ultimately a contract would be entered into.

Q. Right. So we then have—what was the date of that, approximately?—A. It was some time in 1950; October, 1950.

Q. So, in October 1950 we issued a letter of intent to Sorel?—A. No, in October 1950 the Canadian Commercial Corporation got a letter of intent from the department of the navy in the United States, and in November, 1950, the letter of intent was placed with Sorel Industries.

Q. In other words—this is interesting; you say the Canadian Commercial Corporation got a letter of intent from the department of the navy in the United States; what about the Canadian portion of this order?—A. Oh, I am sorry; I thought that you were referring to the American order.

On August 23rd, 1950 the Canadian Commercial Corporation sent a letter of intent to Sorel Industries, dealing with the same production for Canadian account.

Q. And that letter of intent from the Canadian Commercial Corporation to Sorel Industries was based upon a documentation from the Canadian authorities?—A. A contract demand from the Royal Canadian Navy, dated August 3, 1950.

Q. And how many guns did that original letter of intent of August 23, 1950 state?—A. Seven!

Q. You say seven, at a total price of what?—A. There is no price. A figure was set aside of \$2,100,000.

Q. You say \$2,100,000, so that actually at that point—let us say during the month of October as I understand it, we are in this position: the Canadian Commercial Corporation has gone to Sorel Industries with two letters of intent, one on behalf of the Canadian Navy which indicates their plan to purchase seven of these units at a total cost of \$2,100,000 or approximately \$300,000 a piece; and another, based on a United States Navy plan for 40, for \$10 million, \$250,000. Is that correct?—A. Yes, I think that is correct.

Q. Why at that point, let us say, in August, when you first placed your letter of intent regarding Canadian requirements, you had no positive indication whatsoever from the United States that they were going to require an additional supply?—A. If you include the word "positive", I think that would be correct.

By the Chairman:

Q. Did you have some indication that was not positive?—A. We had an indication that an order would be placed by the United States authorities, but Mr. Hamilton asked if we had a positive indication. It seems to me that a positive indication would have to be an order at that time and we did not have an order.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. But negotiations were going on?—A. Yes. The United States Navy had sent production specialists before this time to Canada to survey the possibilities of having some production for their own account at Sorel.

Q. Do you remember off hand when these people were up discussing this matter?—A. I think one occasion was in July of 1950, but how many other discussions took place I do not know.

Q. It was shortly before the Canadian letter of intent was sent. Let us leave it there for the moment. In the case of other equipment for the Canadian armed services, you would be following a similar pattern with other companies?—A. Similar to what?

Q. Similar to the pattern followed with Sorel Industries; that was a pattern in which you issued—or the Canadian Commercial Corporation issued on the basis of requirements indicated by the armed services, a letter of intent to the manufacturer?—A. That is a common form of entering into a contract, and it has occurred in other instances, yes.

Q. And some of those cases would be where part of the equipment is required for the Canadian armed services and part for the United States?—A. I am not sure that I can think of similar circumstances at the moment, but there may be some.

Q. Is this the only case in which we have bought equipment for the United States?—A. No, but it is the only case which comes to my mind immediately where it was done on this basis. We have sold many things to the United States on the basis of being the low tenderer or on the basis of having an item in production which they wanted and on which we were able to quote a price to them and it was satisfactory, and they got it; but I cannot at the moment think of a case on all fours with the present one. There was no production at all by Sorel Industries at the time coming to the governments indicated, but they wished to get the end product.

Q. Were these particular factors, which resulted in the difference in the end prices between the United States requirements and the Canadian requirements, envisioned at all at the time of this original letter of intent?—A. I cannot answer that; I do not know what was envisioned, or what was contemplated would be in the final agreements that would be entered into between the company and the two governments.

By Mr. Harkness:

Q. Was Sorel Industries aware at that time that the Canadian government was going to pay this total, the cost of these three items which you mentioned, totalling \$3 million odd?—A. Sorel Industries would have no contractual relationship with the United States authorities whatsoever. Any authority which they got for the expenditure of funds and for the reimbursement for expenditures must come from some agency of the Canadian government, and these expenditures were authorized, the three items which you mentioned, but they would not know.

Q. You mean they were authorized eventually?—A. They were authorized long before the date which I indicated was that of the final agreement on the actual figures in March 1955.

Q. Were Sorel Industries told at the time that this first letter of intent was sent to them, or whatever you wish to call it, that the dominion government was going to take up the cost of these three items building rehabilitation; training expenditures; and rehabilitation of staff houses, and so on?—A. I cannot pin point it that way. These discussions would take place before the time when these matters went forward, but whether actually it was before or after October 1950, I cannot say.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. The interesting point to me about this, Mr. Chairman, is this: if any corporation is going to go into a major operation of this sort, they must surely realize—and the Canadian government must equally surely have realized—that the particular items which are in question, the three major items which relate in a difference in cost, are going to be factors; you know you are going to have tooling-up, and you know you are going to have to train your men, and you know you are going to have to house them. So we must have been aware of that fact in 1950 at the time of these letters of intent.—A. Yes.

Q. And that leads me, or it would lead me to the conclusion that these factors were taken into consideration at the time of arriving at this original estimate; but when the bill comes to be paid, however, we find that the United States price if anything is a little lower, I think, than anticipated, and we have it as \$244,000 a gun.—A. No, \$250,000.

Q. I mean the eventual price paid.

Mr. HARKNESS: Mr. Sellar said it was \$244,000.

The WITNESS: Are you speaking of the cost or the price?

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. The cost.—A. The cost is \$244,000 and they paid \$250,000.

Q. They paid the Canadian government?—A. The cost is \$244,000 and the United States government paid \$250,000.

Q. Right; so the United States government paid the same amount as in the original letter of intent which was \$250,000 for 40 guns, or \$10 million?—A. Well, mathematically that is correct, but I do not agree with you that it was the price agreed upon at that time.

Q. I mean that it was the contemplated price in the letter of intent.—A. It was the amount set aside by the United States Navy at that time.

Q. Right; whereas the Canadian government for which we can find a figure arrived at in a similar manner of \$300,000, ends up with paying some \$356,000; that is correct again, is it not?—A. \$348,000.

Q. Right; now, why were the particular circumstances—or at what point—what took place that resulted in this disparity between these two figures, one of which is the same as that in the letter of intent of October 1950 for the United States and one which is substantially greater than that in the letter of intent of August 23, 1950; and I might add one point which is that in each case, as I understand it, the number of units was substantially greater than was originally contemplated.—A. That is correct.

Q. Normally I would take it that under those circumstances the price and the cost would be substantially less.—A. Well, I do not know if the number was greater, or substantially greater than was originally contemplated, but it was substantially greater than the number originally contracted for; that is correct.

Q. What major factor resulted in this eventual outcome which is different from what one might have expected?—A. I am not sure that I can answer that. In the course of negotiations which extended over several years it was ultimately agreed that these items to which you refer were properly chargeable to Canada as relating to Canadian facilities which are in being and producing not only 3'/50 naval guns, but 105mm and 155mm howitzers, and so it was agreed that the payments by the United States of \$45 million under all the circumstances was requisite.

Q. I have just one more question: were any representations made at that time by the United States government to the Canadian government in respect to this matter, or was this purely a voluntary action on the part of the Canadian government?—A. I am sorry, I do not understand that; you say voluntary action in what way?

Q. I mean which resulted in the eventual price charged to the United States? Did the United States come up here at any point, or through their representatives and say to the Department of Defence Production: "We do not think that we should be charged with this: or we feel that the proper price to us takes these factors into account and not these?"—A. Certainly; they said many things; negotiations were taking place almost continuously over several years and I have no doubt that they inspected everything because they had a very large team of skilled people at Sorel living there permanently. We had some of their machine tools at Sorel, and they paid for the chrome plating plant at Sorel; but I cannot think of any of these things that were not discussed. I am sure that I cannot put my finger on the point you mentioned, but certainly many things were discussed in the course of the negotiation of this price.

By Mr. Applewhaite:

Q. Before I ask one or two questions I would like to clear up one thing. The original letter of intent which has been referred to in connection with the first Canadian purchase—did that letter quote approximately a price of \$300,000 per unit, or was that price just a matter of departmental figuring? Was that price at that time quoted or discussed with Sorel?—A. I shall have that for you in a minute. There is no reference to cost in the letter of intent, I mean the first letter of intent, dealing with the Canadian order.

By Mr. Harkness:

Q. Did you not say there was a letter of intent mentioning seven guns at a cost of \$2,700,000?—A. No. I said that the Royal Canadian Navy—I mean

if I did not say it, I meant to say that the Royal Canadian Navy had set up \$2,100,000 in their financial encumbrance when they sent the contract demand over.

By Mr. Monteith:

Q. The letter of intent did not definitely designate that?—A. No.

By Mr. Applewhaite:

Q. There were three major items referred to, the plant, the staff, and the house rehabilitation, which was something in the neighbourhood of \$900,000; was that whole amount charged to this one group of mounts of the order of 46?—A. Yes, it was all charged to the 46 Canadian mounts.

Q. The auditor general suggests that to an undetermined degree the subsequent production of mounts was beneficial.—A. Oh yes, without question.

Q. You agree to that?—A. Yes, without question.

Q. First of all, I would like to know roughly what was the subsequent amount of production on Canadian account; and consequently how did you justify the statement that the subsequent production benefited by this payment against the 46 guns?—A. There was something in the order or magnitude of \$30 million in other contracts there, and this expenditure of course would be substantially greater if these expenditures had not been absorbed by the 3"/50 gun contract.

The CHAIRMAN: If they had not been absorbed by that contract, they would have had to be absorbed in subsequent contracts placed by the government, and the government would still have had to pay.

The WITNESS: Not only these items, but also the question of absorbing the training of a very large number of unskilled men, and their overhead.

By Mr. Applewhaite:

Q. Are you saying in effect that a large amount of capital expenditure was charged to one particular order?—A. I am advised that there is some question about whether this should properly be referred to as capital. But it certainly is an expenditure which had to be made. If it were not charged against this contract it would have to be charged against some other contract.

Q. To use the words of another questioner, is that a normal practice?—A. I am having a great deal of difficulty, sir, in dealing with normalcy in this area where you are dealing with a mammoth plant which only has one reason for existence, and where you tried to take it, in a time of emergency, from the position of virtual shut down and create a modern gun plant out of it. From that point of view I am having a great deal of difficulty with normalcy.

Q. I will admit the emergency. I will tell you frankly what I have got in the back of my mind, and that is: how can we justify, in fairness to the navy, charging approximately \$3 million of over-all plant expenses against one navy order?—A. Because it was the only formal order in existence at that time, even though it was contemplated that at some later date other contracts would be placed there. But, it was the only formal order in existence in 1950.

By Mr. Monteith:

Q. You do that anyhow, do you not? You try to get rid of it?—A. I beg your pardon?

Q. Would it not be reasonable to get rid of that amount in the one order at that time? It was your only formal order?—A. It was, yes.

By Mr. Applewhaite:

Q. I do not want to get into an argument across the table, but I do not think we should leave that statement on the record, surely. Supposing you had competition, and you were in a competitive business and you charged your whole plant up to the first order, and then you sell to competitors cheaper?—A. Mr. Applewhaite, an entirely different consideration prevails if we are going to talk about competitive tenders. I tried to indicate that nothing should be drawn here from this incident in relation to the more normal method of contracting, where an item is known, and a plant is in existence, and so on.

Q. Then I am right in saying that it is not the normal practice to charge such a large chunk of that type of expenditure against one order?—A. Oh, no. All I am saying is, to discuss this in relation to what would happen in competitive tender calling seems to me to be unrealistic.

By Mr. McGregor:

Q. Do I understand that this \$3,772,000 was made for the purpose of the manufacturing of these guns?—A. No. There are three separate items. One is the cost of absorbing a very substantial preproduction and learning expenses. The second is the rehabilitation expenses, and the third is the standby maintenance payment for the standby maintenance of the plant for five years.

By Mr. Monteith:

Q. Could you give us a little more detail on that third one, Mr. Chairman, standby maintenance? You mentioned it I think earlier in your report. Would you mind reading your statement again, that portion of it with respect to the third item? Read it slower. I did not quite catch it all as you were reading it before.—A. "The third item of expenditure of a similar nature represented a portion of the settlement made with the contractor to compensate for the cost of maintaining this highly specialized facility (which had little or no economic commercial use) during the period from 1945 to 1950, which amounted to \$1,338,436, or \$35,074 per mount. This charge, relating as it did to a prior period, was not applicable to current production for U.S. account, but was apportioned over all Canadian contracts for the three-year period from 1951 to 1953 inclusive. In this way, the standby maintenance costs which, incidentally, were non-profit-bearing, were completely segregated from production costs and profit thereon, and permitted contractual negotiations with Sorel Industries Limited to be carried out on the same basis as other defence contractors who were not in this position."

Q. In other words your last sentence there was to the effect that you had entered into similar settlement with other defence contractors besides Sorel?—A. No, we have not entered into any such settlement, but we entered into this one with Sorel so that after this had been concluded, or agreed to, we could then discuss profit with them in the same way as we would normally discuss it with other defence contractors.

Q. If the Korea situation had never arisen would there have been any reason whatsoever to consider paying them \$1,338,000-odd?—A. I would not think so, no.

Q. In other words from 1945 to 1950 they were a private concern, and what happened to the company was primarily their consideration?—A. Correct.

Q. But the department felt called upon to reimburse them for some expenses entailed during that period in keeping their plant up, although there was no reason for them to expect further orders?—A. We were satisfied that one way or another this expenditure would have to be met, and we chose to make it in this form.

Q. Now, it occurs to me that during this period they were purely a private concern with no government contract, although I believe they did have some contract for changing freight cars into freezers or something of that kind?—A. I believe that is Marine Industries, another associate enterprise.

Q. Getting back to Sorel, they were a private concern with no government contracts for defence purposes during this period, and then along in 1950, when the department considered placing orders for armaments, it was considered by the department that some of the expenses of maintaining this establishment during those five peace years was justifiable?—A. We were faced with the situation where it seemed to us reasonable and fair that you have to adjust profit rates to meet the particular situation of a particular industry and it would appear, and it did appear to us, that there were other justifications for a profit rate here out of line with the standards which had been laid down for our guidance and which we have adhered to. Therefore it was agreed that this would be picked up in this manner.

Q. Mr. Chairman, I just cannot get through my mind why at this stage in 1950 a loss, that you might say the company had suffered in five previous years should be picked up in subsequent contracts?—A. The government was the beneficiary of a decision of Sorel Industries to try to maintain its plant, because the cost of setting up a plant if it had been abandoned would have been enormous.

Q. Had there been any intimation to the company in 1945 that they should keep this plant open?—A. I believe they were advised not to keep the plant open.

Q. But despite that they went ahead and kept it open, and subsequently the government thought it should pick up this \$1,338,000?

The CHAIRMAN: Let me ask one question; if they had not kept it up, and it had been converted to be used for commercial purposes, how about the cost of reconverting it for defence purposes? How would that cost compare to the figure of \$1,300,000 that has been mentioned?

The WITNESS: I could not give any accurate guess.

Mr. MONTEITH: That is all right, Mr. Chairman, but I have not had an answer to my question.

The CHAIRMAN: Just a minute, I have not had an answer to mine yet either. I would like to get one and you can ask yours after if you like.

Mr. MONTEITH: I thought mine was first.

The CHAIRMAN: Oh, I beg your pardon. I did not think you had asked your question before I asked mine.

Mr. MONTEITH: All right, you go ahead and get an answer to yours, and I can follow it.

The WITNESS: I cannot answer your question, Mr. Chairman, except to say that the expenditures would bear a direct ratio to the manner in which the plant had been abandoned, what happened to the machine tools and specialized facilities and so on. But, it is a very costly undertaking to provide facilities for heavy guns.

By Mr. McGregor:

Q. This plant was set up before for building guns?—A. Yes.

Q. Then why this heavy expenditure for the change, then, to build another type of gun?—A. The chairman asked me what the expenditure would have been if between 1945 and 1950 this plant had been converted, broken up, or converted or abandoned, or sold, or the machine tools scrapped and so on. At least, I understood that to be the import of your question.

The CHAIRMAN: Yes.

By Mr. Harkness:

Q. But, Mr. Golden, did you not say a short time ago that the company had attempted to convert this plant, but were unsuccessful in finding any use to which to put it?—A. I do not know that they attempted to convert it. They attempted to do commercial work in it.

By Mr. Monteith:

Q. I would just like to get one point cleared up. As I understood it, Mr. Golden says that in 1945 he believes the department advised them to revert to peacetime industry, or look after themselves—shall we put it that way—and there was apparently no intimation that there would be any money forthcoming to assist them in keeping it in such a condition that it would be able to produce armaments. Am I right in that rambling suggestion?—A. Some time between the period from 1945 to 1950—I would not like to pinpoint it as being 1945—I do not know this of my own personal knowledge—

Q. They were apparently advised at some time that they would probably get no further orders, and the department would not pay any compensation to reimburse them for sustaining the type of production they were capable of?—A. That is substantially correct.

Q. And along in 1950 or subsequently, apparently an agreement was signed—in 1955. But, as you say, negotiations had been going on for some time and so on, and they decided to pick up this third item, \$1,338,000-odd. Now, I cannot for the life of me see why that particular item should be picked up. I can understand the preproduction and learning and the plant and staff house rehabilitation, but I cannot understand this \$1,338,000 settlement with the contractor for this period from 1945 to 1950.—A. In effect it is one method of providing a profit factor greater than we did in the other form.

Q. The company just comes along and feels that because it has gone ahead and done what it was advised not to do it should still be paid for doing that?—A. Or the company feels that, being engaged in this type of business, and that there are very few years when you can operate profitably, those years have to absorb the losses of the other years, if you are going to stay in business.

Q. All right, but they were still told to get out, or advised, shall I put it that way, to revert from wartime production. They did not do so, and they are operating as a private concern. In my estimation an item such as this should be their own worry and not the government.—A. It was their own worry, and they indicated in no uncertain terms that they would expect that their profit margin would include some element of compensation for the years when they operated at a loss. The funds have to come from somewhere if the plant is to be kept in operation.

Q. Yes, but they kept it in operation against the advice of the department.

By the Chairman:

Q. If you will allow me to do so, I think I can clear this up with one or two questions. If I understood correctly Mr. Goden, you said that this item, \$1,300,000 was another method of assuring the manufacturer of a reasonable profit, apart from the other basis. Now, you did not say what the other basis was. I think I know that it was a percentage of the cost, was it not?—A. Yes.

Q. Now, would it be correct to say, to make this clear to the committee, that if they had not got this \$1,300,000 as a payment to compensate them for their actual charges over that period, they would have asked for, and you would have very probably had to give them, more than 7 per cent as a profit on the rest of the contract?—A. I would think so.

The CHAIRMAN: Yes.

By Mr. Cavers:

Q. Mr. Chairman, I just want to clear up one point. I understood the witness to say that the United States government also contributed capital towards the operation of this business in that they paid for the installation of a chrome plant, is that right? What was the amount paid by them in establishing the chrome plant?—A. The chrome plant was approximately \$150,000. Their total contribution was in the neighbourhood of \$1,200,000.

Q. And was that included in the \$250,000 per gun which they paid?—A. No.

Q. It was not?—A. No.

Q. In addition to the chrome plant, which they contributed, were there any other amounts that they paid in connection with this operation?—A. We got about \$1 million worth of machinery from them.

Q. \$1 million worth of machinery from them, yes?—A. And they supplied and paid for a team of highly skilled technical personnel, who lived at Sorel.

Q. None of these amounts were included in the—

The CHAIRMAN: Just a minute. I would like to get a figure on the record for that last item which you say they supplied and paid for.

The WITNESS: We have never costed this, Mr. Chairman. They kept a substantial number of people there for about four years. We have never costed it.

By Mr. Cavers:

Q. You have not any idea then of what that cost would have been over the period of four years?—A. We have never done this.

By Mr. Harkness:

Q. What was the disposition of the chrome plant and tools that the Americans supplied?—A. They are still there, still at Sorel.

Q. And it belongs to the Americans?—A. Yes.

Q. In other words it is there on loan?—A. They allow us to use it for any defence contract that we have at Sorel, even though they have no similar contracts there.

Q. And is there rent paid for those?—A. No.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. No reimbursement at any point in the United States?—A. No.

By Mr. Harkness:

Q. Now, from what was said by the chairman or yourself, a little while ago, I understand that this was on a cost-plus basis, this contract?—A. It was on a prices-to-be-determined basis, and ultimately agreed to as a cost-plus contract.

Q. What was the amount of profit allowed?—A. 7 per cent.

Q. 7 per cent. Then what was the total amount, exclusive of this \$3,772,000, what was the total amount paid to Sorel Industries on account of both the Canadian and American guns?—A. I gather we have these figures based on unit prices, the same way Mr. Sellar did it. Would that be satisfactory?

Q. No. I really wanted to get the total cost to begin with, now. There seems to be an apparent disparity between the unit price that you have given and the unit price that Mr. Sellar gave, because he said the charge to the Royal Canadian Navy for the 46 guns delivered to us what about \$356,000, but when that was brought up some time ago you said that price was \$348,000?—A. Yes. Mr. Sellar's estimate was based on the information that was available to him at the time. We have a more accurate picture now which changes it to \$348,000.

Q. Does that mean that there were some costs that were put in, that were present when Mr. Sellar audited the books, that have since disappeared, bringing this price down \$8,000 apiece?—A. It was largely a question of allocation. There was nothing definite at the time. Mr. Sellar had the files available to him, but the actual figure is \$348,793 for Canadian mounts and \$246,363 for the American mounts.

By Mr. Monteith:

Q. \$363,000?—A. \$348,793 versus \$246,363.

By Mr. Harkness:

Q. In view of the fact that we have been working on somewhat different figures, what I would like to have is the total amount paid to Sorel for these guns and also the amount of that paid by the United States and the amount paid by Canada.—A. \$348,793 multiplied by 46 and \$246,363 multiplied by 180. There may still be changes as the audit continues.

Q. And of that amount 7 per cent was profit?—A. No. Not all of the items are profit bearing. One of the items which members of the committee have been referring to—the \$35,000, there is no 7 per cent on this item.

Q. What I asked for was the amount paid to Sorel, exclusive of this \$3,772,000.—A. \$283,129 per mount included profit. The comparable American figure is \$249,498.

Q. What is the total amount of profit? Have you got a figure for that?—A. Approximately \$16,295 per mount on the U.S. contract, and \$18,259 per mount on the Canadian contract.

By Mr. Monteith:

Q. That is excluding this \$3,772,000?—A. Yes.

By Mr. Harkness:

Q. \$16,295, and \$18,259?—A. Yes.

Q. Was the profit?—A. That is accounted for by the fact that the Canadian mounts required substantially more spares than the American ones, since the American ones have very large depot spares from other contracts which they have.

By the Chairman:

Q. Mr. Golden, I see you have some figures there. Have you copies of those that could be distributed to the committee?—A. Yes.

Q. I think it would be a good idea to distribute them if you have them available. These are figures showing the unit prices of the U.S. gun and of the Canadian gun.—A. Perhaps that would clear up some of the points.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. While those are being distributed, Mr. Chairman, could Mr. Golden tell us what is the United States practice when they act as a buying agent, you might call them, for Canadian munitions and supplies, when a case such as this arises? Do you know of a similar instance in the United States?—A. To the best of my knowledge the American practice varies with the individual case.

Q. But have certain Canadian purchases of munitions and supplies made in the United States through the United States government included the operation of the tooling up and refurnishing of the plant necessary for that particular item?—A. I am advised that the best answer we could give is that we know of many cases where we have not paid this type of charge, where we have made purchases in the United States.

Q. Do we know of any cases where we have made— —A. We do not know of any, but it is possible that there may have been. Sometimes a unit price is quoted to you on a run where you might not be in a position to follow all of the factors which were taken into account in making up the price.

Q. So that if we were to examine each of our purchases in the United States we might find that it is quite possible that we have paid our share of expenditures such as the one's currently under discussion?—A. I know of no such cases, but it is possible.

By Mr. Monteith:

Q. Mr. Chairman, there is one figure that I am just not sure of in this first item, preproduction and learning, the total of \$1,525,000. That works out at roughly \$33,000 per mount. That is taking into consideration 46 mounts.

Now, this settlement with the contractor item, when I was discussing before this \$1,338,000, I think Mr. Golden mentioned that that came to about \$35,000 per mount. That does not figure out mathematically. I just wonder whether there were lesser amounts taken into consideration there or what?—A. \$35,074—it should be 1/46th of \$1,338,036.

Q. Well it is not.

I see your note here on this \$35,000 per mount says, "Portion of total settlement made with contractor to compensate for maintaining facility during period between 1945 and 1950." And then in brackets the words "(Apportioned over all Canadian contracts at the rate of \$80,000 per month for three years)".

So that that is apportioned a little differently than the other item. It is not taken on a straight 1/46th basis.

By Mr. Applewhaite:

Q. I would like to ask a question about this sheet of figures we have just had distributed. Pardon my use of the word, capital cost, but your heading here is, "Cost of setting up a facility—". You referred to similar expenditures by the United States in connection with the chrome plant and so on. Are they shown on this sheet?—A. No. If I used the term "similar" I am sorry because they are not similar expenditures. They are expenditures made by the United States government not shown on this sheet at all.

The CHAIRMAN: Would it be the pleasure of the committee to have this statement annexed to the reports of the proceedings for today?

Some Hon. MEMBERS: Agreed to.

The WITNESS: May I say something, Mr. Chairman? We have transposed some figures, not in the sheet, but in my statement. When I refer to preproduction and learning expenses as being \$1,525,428, it is there that the \$35,074 appears. On the third item it should be the \$33,158. But, I believe it is correct on the sheet which has just been distributed.

By Mr. Monteith:

Q. I do not think so. You have not transposed the \$1,525,000 and the \$1,338,000, have you? That is the figure that is transposed here.—A. Yes, I am sorry.

Q. In other words Sorel has been given an amount of \$1,525,428 as a settlement to cover their losses, presumably, in the period,—or some of their losses—from 1945 to 1950, at which time they were not entering into any contract with the department?—A. It is actually \$2,880,000 not \$1,500,000. It is actually \$2,880,000 of which \$1,500,000 is apportioned to the 3"/50 contract, and the balance to the 1.5 and the 155 contracts.

Q. That figure then is actually— —A. \$2,880,000; or \$80,000 per month for three years.

Although the figure ultimately turned out to be \$2,880,000 it was not agreed to on that basis. It was agreed to on the basis of \$80,000 per month for three years, if contracts had not been placed, or had been cancelled, or had run out within that time. Then the only amount arranged would have been \$80,000 per month for the number of months that Sorel were actually in production. In the end it was the total figure of \$2,880,000.

By Mr. McGregor:

Q. That was for rent while they were in production?—A. It was as a device, as a method to be able to negotiate with Sorel on their production contract, the same way that we would negotiate with any other contractor who had not been in their unique position.

Q. That was rent of \$80,000 a month while they were in production?

By Mr. Harkness:

Q. No.—A. It was a payment of \$80,000 a month while they were in production for a maximum of three years.

By Mr. McGregor:

Q. How was this other amount made up? Was that made up as rent before they started manufacturing?—A. No. The amount that we have described is the proportion of the \$2,880,000 that was payable by the 3"/50 contract. The other contracts picked up the balance.

By Mr. Monteith:

Q. And these contracts really ran then from about 1950 on until 1955?—A. They are still on production.

Q. All those amounts have been absorbed? There will be no more of this type of payment?—A. No.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Would you say, Mr. Golden, that it was an unusual coincidence that the letter of intent issued in 1950 by the United States government to the Canadian Commercial Corporation establishing the proposed or estimated price of \$250,000 for these guns was so extremely close to the final price of these guns, which I think your sheet sets at \$249,498?—A. I have no personal knowledge of how this figure was arrived at in 1950. I do not believe that it was intended to be the ultimate figure that would be agreed to.

Q. No, but is it normal that over a five-year period, between the issuance of a letter of intent and the ultimate determination of the price that the two figures coincide to within a tiny fraction of 1 per cent?—A. I cannot answer that because I do not know of any similar circumstances that I can refer to.

Q. The Canadian government has issued other letters of intent?—A. Yes.

Q. Have you usually been as close as that between your original estimate and the final figure?—A. I do not think an estimate made five years before would normally be within 1 per cent, no.

Q. No. You see, that is one of the things about this which causes me some concern. I am wondering whether perhaps there is some question we have not asked which should have been asked to bring another aspect of this matter to light. You have much information at your disposal. You have been very generous in answering any questions which were asked by the committee, but it does seem to be most unusual—shall I say to be almost unbelievable—that in 1950 we entered into a discussion with the United States navy and the Canadian Commercial Corporation, and then the Canadian Commercial Corporation and Sorel Industries and we say we envision the production of 40 guns

for the United States navy plus some for Canada and we envision these 40 guns as costing \$10 million, which is an average price of \$250,000. Five years later, despite all the cost increases, despite everything that has happened in that period, we come along and we say "Now, we are going to send you a bill for these guns, and it is not actually \$250,000, it is \$249,498". At the same time, we have entered into discussions with the Canadian navy. At that time, for whatever reason at the 1950 point we said we think these guns are going to cost \$300,000. Five years later we come along to them and we say, well, we are now prepared to send you a bill. The bill is \$371,240. Now, there is, and I think you can see, something that at least takes one's interest in a situation like that.—A. Would it be of any assistance, Mr. Hamilton if I indicated,—and that is the fact,—that in the course of the negotiations with the United States on several occasions they offered us substantially less than \$250,000 per mount. \$250,000 was an amount finally agreed upon, but we had suggestions from the United States government that the amounts should be substantially less than that.

By Mr. Applewhaite:

Q. Would it be a wrongful inference to suggest that the original figure was a stated maximum—the \$250,000?—A. It is not unusual to indicate a figure beyond which the contractor is not allowed to go.

By Mr. McGregor:

Q. In other words the government of the United States was trying to buy them as cheaply as they could?—A. I would think so.

Q. And Canada was not?—A. I would not agree with that.

Q. It looks like it, according to these figures.

By the Chairman:

Q. I see a statement, Mr. Golden in the Auditor General's paragraph that we are working on now. He mentioned an offer of \$45 million for the production of 180 guns. This was accepted. Now, that works out at exactly \$250,000 per gun?—A. Yes.

Q. Would it be fair to say,—and I do not want to put words into your mouth,—but would it be fair for us to say that the \$250,000 was the maximum that you could possibly get out of them after long and protracted negotiations—A. It is the most we were able to get, and it reflected what we thought, and what I personally still think is a fair distribution.

Q. Can you elaborate on that?—A. I think it is a fair distribution, because Canada gets far more advantages, and got more advantages out of the fact that the United States placed an order for \$45 million in a plant which we were just reactivating to meet the Korean emergency. They absorbed four-fifths of the overhead; they absorbed four-fifths of all the fixed charges; they absorbed four-fifths of the cost, after the initial charges had been paid, of training people and absorbing the learning curve, and they put us in a position where we were able to continue to produce other weapons in this plant.

Q. Just to pinpoint this matter, and to get some figure before us, could you tell the committee this: supposing the Americans had not given us that order, or supposing we had said that we could not do it for \$45 million and we would not accept that order, what would have been the approximate cost of 46 guns built for the Canadian navy, if the guns had not been built for the American navy?—A. Two or three times what we paid.

Q. Two or three times what we paid. Thank you.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Did Sorel Industries indicate at any point that they simply would not proceed with the contract if these expenditures, which eventually ended up being charged only to the Canadian portion of the contract, were not undertaken by the Canadian government?—A. It was agreed right at the outset that these expenditures were necessary and would have to be paid by the Canadian government. It was not any concern of Sorel whether the Canadian government was reimbursed in whole, in part, or not at all by the United States government.

Q. When you say it was agreed at the very outset, have you any idea as to what the approximate date would be that that agreement was made?—A. These would be expenditures which would be incurred right at the beginning, inasmuch as they were necessary before you could start. It would be 1950-51.

By Mr. Monteith:

Q. Are you referring now to the \$3,700,000-odd?—A. We refer to these three items.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. So they must have been envisioned in these two original letters of intent? When the letters of intent were issued we had these in mind?—A. We would not have any dollar value in mind, at least no accurate dollar value in mind, but I suppose that would be agreed, that some expenditure on these matters would be envisioned at that time, yes.

By Mr. Applewhaite:

Q. In your figures showing the cost of the guns, is there included an amount for plant overhead?—A. Yes, of course.

Q. Yes. This is what I am getting at, I do not want it to sound a leading question, but if we had not paid these three items that we have been talking about, would they then have gone into the basic cost as increased plant overhead? Would Sorel have arranged their billing somehow or other so that they got out of this first order?—A. They had to be absorbed as an element of cost somewhere.

Mr. MONTEITH: I claim the two items are understandable, but not the third.

The CHAIRMAN: Just a minute, I think we should let Mr. Golden finish his answer first.

By Mr. Applewhaite:

Q. It is all three of them I am getting at.—A. I think you have to segregate the third one from the first two. The third one is a method of putting this company in a position where we could deal with them in the same way as we try to deal with all defence contractors. The first two are just ordinary elements of cost which have to be absorbed under a contract or contracts, whichever manner you may choose.

By Mr. Harkness:

Q. In effect, in respect to these three items, it is actually \$34,074 extra profit per gun, that is really what it comes down to?—A. It is an extra payment. Some element of it might be profit.

Q. I would say that it is all profit; because if the company had that plant there, and had been maintaining it over these five years, then you turn around

and pay them \$1,525,000 for what they had already done, over the previous five years, and during the period in which they were trying to establish some commercial activity there, and had not succeeded in doing so?—A. They had spent this money.

Q. Certainly they spent it, but they would have spent it whether you gave them any contract or not?—A. Yes.

Q. Therefore what that really amounts to is, as I say, an extra profit of \$35,074 per gun.

The CHAIRMAN: Is that quite accurate?

By Mr. Harkness:

Q. You indicated that in your evidence before, yourself.—A. I cannot quarrel with the statement that if the payment had not been made they would have been out of pocket what they had expended in prior years, and that would be the end of it. But, I am not sure that I would agree that because a payment was made, in effect it represents a profit which you might just as well say represents a reimbursement of losses.

Q. I think that comes to the same thing. In this second item, how much of this \$908,000 was for rehabilitating these staff houses?—A. \$200,000-odd.

Q. Those staff houses, I presume, are rented to the employees?—A. Yes.

Q. How is it justifiable to charge that up to the Canadian government? Here you have got certain houses that have been rehabilitated at a cost of \$200,000. They are being rented to the employees and I presume the housing situation, being as it is, they will continue to be rented. It does not seem to me that it is justifiable to charge that up to the Canadian government.—A. As I understand it, the thinking behind it was that these houses had fallen into disrepair and it was desired to put them in the condition that people could start living in them again; and then the cost that was charged, after they started living in them, was a cost of normal rent.

Q. But why should the Canadian taxpayer put them into shape? Why should not the person who is occupying them pay rent to cover this cost, which is the normal thing in any other type of housing that I know of. Even in cases of army houses, and defence houses, they charge sufficient rent to cover the building cost and the depreciation, and the maintenance and so forth. There is no other type of housing that I know of where the Canadian taxpayer pays for it.—A. This is a barrack type of accommodation for single men. I understand that it is not uncommon that this be done to avoid having to charge excessive rental to the single men who occupy them.

By Mr. McGregor:

Q. When were these houses built?—A. In the early years of World War II.

By the Chairman:

Q. And they had been uninhabited for four or five years?—A. I understand so.

By Mr. Harkness:

Q. Is there any other case at all where the Canadian government has paid for the rehabilitation of houses, and in effect paid for housing for employees in a factory?—A. I understand it is not uncommon to achieve this net result, but whether it has been done in this exact way before I cannot say.

Q. It is generally done, if it is done at all, by the industries in order to attract labour in, or to help hold them there, or something else along that line. In other words it is purely in lieu of their wages, I presume.—A. Yes. If they are working on defence contracts they charge these fringe benefits, and such costs, to the Canadian government.

Q. I cannot see any justification for it.

By Mr. McGregor:

Q. What rent do they pay for these houses?—A. I do not have the answer.

Mr. HARKNESS: Did this gentlemen say they pay for their meals and they do not pay any rent at all? That is what I heard.

Mr. E. C. PERKINS: No. They are in fact paying "board and room" for their accommodation. They pay for their meals under a community type living. They have rooms. These are barrack type accommodations similar to the army accommodations, and they pay the normal amount.

Mr. MCGREGOR: It is just really a boarding house, is it?

Mr. PERKINS: More or less; I gather it is a barrack type accommodation.

Mr. MCGREGOR: What do they pay?

Mr. PERKINS: I am afraid I cannot answer that.

Mr. MCGREGOR: You seem to know all about it.

Mr. PERKINS: It is the normal amount for that area, and for that type of accommodation, I gather.

Mr. MCGREGOR: What is it?

Mr. PERKINS: I am sorry, I do not know.

Mr. MCGREGOR: I think, Mr. Chairman, that we should have that.

Mr. APPLEWHAITE: Yes, so do I, Mr. Chairman. I do not think the record looks well as it is at the moment. I have operated some of this type of housing for private enterprise when they were on government contracts. I do not know the facts here, but I think we should have them, because the witness used the term "rent". In most of those which I have operated, by the time we got what we collected from the men there was enough to pay the bull cooks, the heat and the light and the rental, and the employer took a loss at that.

The CHAIRMAN: There is no reason why we cannot—

Mr. APPLEWHAITE: I think we should find out whether it is a charge at cost, or whether it is rental, in which case there is a profit on the investment.

The CHAIRMAN: We will certainly get that information, Mr. Applewhaite.

By Mr. Monteith:

Q. Mr. Chairman, if you are off that for a moment, I would just like to go to the sheet we have been given. I notice the basic price paid for U.S. and Canadian guns is \$163,240. Now, the loaders, that is understandable from the explanation.

But, come to the duty rebate—\$4,554 from the U.S. The explanation says, "Rebate on duty paid on parts and materials originally imported from United States and incorporated in guns shipped to United States." Now, that duty must have been originally incorporated in the \$116,000. Am I right? It is now a credit taken off?—A. Yes.

Q. So it must have been incorporated there. How does the cost come to an exact cost? The normal basic price of \$163,240— —A. We imported the same items from our guns.

Q. Oh, it does not say that.—A. I am sorry.

Q. It implies that they are incorporated only in the U.S. guns.—A. They are incorporated in all guns.

Q. They are incorporated in the Canadian guns too?—A. Yes.

By Mr. McGregor:

Q. Could you tell us how much of this stuff was imported from the United States?—A. The American content would be greater at the beginning when we were getting into production with respect to various items here, and smaller as the contract proceeded. I am not sure that I can give a—

Q. I suppose that information is available? You could get that for us?—A. Yes.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. Are any more contracts for these guns contemplated at the moment?—A. Not to my knowledge.

Q. Has there been any—has the department received any representations from, say, the other branches of the Canadian armed services, or the government, that this practice of loading three items, that have been under discussion here, on to the one government contract, has resulted in too heavy a burden being assessed to the government?—A. Not to my knowledge.

Q. It does have that effect actually, leaving aside the question of the United States versus Canada. Since this contract was put through there have been other contracts for the army which you got for this plant?—A. Yes.

Q. Correct. Those have benefitted?—A. Yes.

Q. By those particular expenses?—A. Yes.

Q. Therefore if the expenses had been apportioned across the board the subsequent contract would have been at a somewhat higher price, and this particular contract would have been at a somewhat lower price?—A. I have no doubt that it would have been possible to make other accounting arrangements.

By Mr. Monteith:

Q. Mr. Chairman, I wonder if the department could get this information that Mr. Harkness asked for a little earlier in respect to the total amount paid to Sorel? I am also wondering if these two amounts, the United States amount of \$246,363 multiplied by 180, and the Canadian figure of \$348,793 multiplied by 46, must come to a certain figure. Now, I wonder if we could get a breakdown of the item in the public accounts where this total amount is paid to Sorel? It may have been paid over two or three years, I do not know. But, where is it paid?—A. Public Accounts would also have payments to Sorel on other contracts.

Q. Yes, but it would be quite possible to—I mean, they would be filed with this contract. The amounts connected with the Canadian Commercial Corporation, or whoever it was, would be filed with this contract separately from the others.—A. We could get those figures.

By Mr. Hamilton (Notre-Dame-de-Grâce):

Q. In your negotiations, Mr. Golden, with the United States government, was any attempt made to collect more than \$250,000 from them? Was it suggested by the Canadian government that they might well pay more than \$250,000?—A. Yes.

Q. On that basis would you have arrived at the fact that they should pay more than \$250,000?—A. I think that in the process of negotiation if we found the Americans willing, we would have been quite happy to have them assume some of these other charges. We did not feel that we were in any position to insist that they should do so.

Q. I see. In other words, what has really happened, as I understand it, is not that this has been a matter of principle with the Canadian government, from the very beginning, that they should absorb these three particular costs of their production. It has been a matter, presumably, that they started out feeling that some, or all, of these costs might be spread across the contract, and when the United States government said that they were going to stick by their \$250,000 figure, and they would like to pay less if they could, our Canadian negotiating authorities, when they finally worked out the outside price, discovered this matter of principle?—A. No, I do not agree with that.

Q. What other possible explanation could there be, if in your initial stages you were prepared to have the United States pay for part of this, and subsequently you decided that you were not going to assess any of it to them?—A. I do not think it was a question of discovering principles at all, Mr. Hamilton. There are things in the course of negotiation that you might reasonably ask for that you are not prepared to go down the line for.

By Mr. McGregor:

Q. I suppose they submitted the price that they could build these guns for in the United States, and they would not go over that price, is that the idea?—A. To the best of my knowledge their prices in the United States are lower than \$250,000, but there are reasons why that would be so. They have longer production runs and do not have to start from scratch the way we did.

By Mr. Harkness:

Q. Referring back to the request that was made by Mr. Monteith in respect to getting the totals paid, did the United States pay any money directly to Sorel or was it all paid to some agency of the Canadian government which then paid Sorel?—A. They would pay the Canadian Commercial Corporation.

Q. So all payments to Sorel were made by the Canadian Commercial Corporation, and those will all appear in the public accounts?—A. Yes, those figures will appear.

The CHAIRMAN: We shall adjourn to the call of the Chair. It remains for me to thank Mr. Golden and his officials who have been called to give us this information.

Now, I will get the required information from the Department concerned, namely: rentals of staff houses; percentage of parts and materials imported from the U.S.A.; and the total payments to Sorel Industries Limited by Canadian Commercial Corporation, and the amounts paid on U.S.A. account.

APPENDIX I
SOREL INDUSTRIES LIMITED
3"/50 Twin Mount Gun Contracts

Comparison of Production Costs Between U.S. and Canadian Contracts Based on Costs as at February 29, 1956.

	UNIT PRICE		Difference Canadian over U.S.	EXPLANATION
	U.S.	CAN.		
Basic Gun less loaders, including spare barrels.	\$ 163,240	\$ 163,240	—	Total manufacturing costs of basic Guns shared pro rata between United States and Canada.
Loaders.....	65,400	68,137	\$ 2,737	Lower average cost of U.S. loaders due to lower cost of 50 loaders bought in United States, which were attached to the U.S. Guns only.
Duty Rebate.....	4,554 Cr.	—	4,554	Rebate on duty paid on parts and materials originally imported from United States and incorporated in Guns shipped to United States.
Basic Gun.....	224,086	231,377	7,291	The Canadian Navy must build up depot spares as well as shipboard spares. U.S. Navy only ordered bare minimum of shipboard spares as their depot spares were acquired from U.S. Manufacturers. Also, there is a higher percentage of shipboard spares to guns for Canadian Navy as U.S. Navy have more guns per ship with same amount of shipboard spares.
Spares.....	7,689	22,447	14,758	
Basic Gun plus Spares.....	\$ 231,775	\$ 253,824	\$ 22,049	Engineering changes and long term preservation. Gunar control on Canadian Guns only. Engineering changes and special requirements of Canadian Navy.
Extras—U.S. Navy.....	1,428	—	—	
—Canadian Navy: Gunar Mounts..... Miscellaneous.....	— —	5,998 1,030	— 5,590	
Total Production cost of Guns.....	\$ 233,203	\$ 260,842	\$ 27,639	

APPENDIX I—Concluded
SOREL INDUSTRIES LIMITED
3"/50 Twin Mount Gun Contracts

Comparison of Production Costs Between U.S. and Canadian Contracts Based on Costs as at February 29, 1956.

	UNIT PRICE		Difference Canadian over U.S.	EXPLANATION
	U.S.	CAN.		
Profit—approx. 7%.....	\$ 16,295	\$ 18,259	\$ 1,964	Tentative pending final assessment of costs by Treasury auditors. U.S. price is fixed and profit rate depends on costs. Canadian profit rate equalized to U.S. rate per agreement with contractor.
Government furnished parts.....	—	4,028	4,028	Applicable to Canadian Guns only.
Total production cost plus profit.....	249,498	283,129	33,631	
Cost of setting up a facility in Canada to produce modern precision guns: (applicable to Canadian production only) Preproduction and Learning Expenses..	—	33,158	33,158	Cost of making ready to resume production after virtual shut down following World War II including cost of staff recruitment and training.
Rehabilitation Expenses.....	—	19,879	19,879	Cost of rehabilitating shops and staff houses, including considerable plant rearrangement.
Standby Maintenance.....	—	35,074	35,074	Portion of total settlement made with contractor to compensate for maintaining facility during period between 1945 and 1950. (Apportioned over all Canadian contracts at the rate of \$80,000 per month for 3 years).
Reconciliation to Auditor General's comparison: Add—Duty drawback.....	\$ 249,498	\$ 371,240	\$ 121,742	
Deduct—Spares.....	4,554 7,689 Cr.	— 22,447 Cr.	4,554 Cr. 14,758 Cr.	The Auditor General eliminated these items from his comparison.
Adjusted costs for comparison with figures shown by the Auditor General.....	\$ 246,363	\$ 348,793	\$ 102,430	

APPENDIX II

OTTAWA, July 10, 1956.

Dear Mr. Cannon:

It was agreed at the meeting of the Public Accounts Committee of July 5th that the Department of Defence Production would forward to you the following information in connection with the contract for 3"50 naval guns.

1. What were the amounts paid by Sorel employees for room and board in connection with the staff (boarding) houses?

ANSWER

Weekly rate per person

	Single Room	Double Room
1951	\$16.00	\$15.00
1952	17.00	16.00
1953	16.00	15.00
1954	18.00	17.00

2. What was the percentage of cost of parts and materials obtained from the United States for both Canadian and U. S. guns?

ANSWER

The United States content of the U. S. guns was approximately 9.5 per cent of the U. S. cost. The United States content of the Canadian guns was approximately 7 per cent of the Canadian cost.

3. (a) What was the total amount paid to Sorel Industries Limited for the production of the guns?
- (b) What was the amount paid by the United States?

ANSWER

(a) Full payment has not yet been made to Sorel Industries Limited as a portion of the profit is being withheld pending final assessment of costs by the Cost Inspection and Audit Division of the Department of Finance. Total payments to the company as of June 30, 1956, for the production of 3"50 guns was \$60,810,559.06. Of this amount, \$44,156,932.92 was on U. S. account and \$16,653,626.14 on Canadian account.

(b) The amount paid by the United States Navy to Canadian Commercial Corporation for 180 guns was \$44,909,412.08 (Canadian funds). The difference on U. S. account between figures given in (a) and (b) is due to profit holdback mentioned above.

Yours faithfully,

D. A. Golden,
Deputy Minister.

Chas. A. Cannon, Esq., M.P.,
Chairman, Public Accounts Committee,
Room 431,
House of Commons,
Ottawa, Ontario.

Canada. Public Accounts, Standing Ctee.
HOUSE OF COMMONS

1956

Third Session—Twenty-second Parliament

1956

Government
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STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

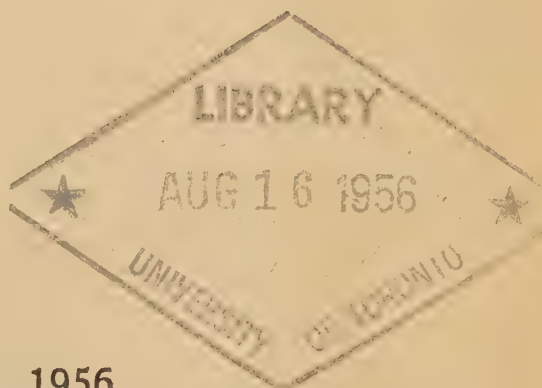
Chairman: CHARLES A. CANNON, Esq.

MINUTES OF PROCEEDINGS
and
THIRD REPORT TO HOUSE

No. 8

THURSDAY, JULY 26, 1956

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
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OTTAWA, 1956



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Hanna	Monteith	

Antonio Plouffe,
Clerk of the Committee.

CORRIGENDUM

Minutes of proceedings of Thursday, March 8, 1956.

Motion of Mr. Cavers, page 7, line 21, should read:

Resolved,—That the Chairman and *eight* other members, to be selected by the former, compose the Sub-Committee on Agenda.

REPORT TO THE HOUSE

THURSDAY, July 26, 1956.

The Standing Committee on Public Accounts begs leave to present the following as its

THIRD REPORT

Pursuant to an Order of Reference from the House dated March 2nd, 1956, your Committee has had for consideration the Public Accounts of Canada for the fiscal year ended March 31st, 1955, Vol. I, and the Public Accounts of Canada, Vol. II, respecting Financial Statements of Crown Corporations for the fiscal year ended March 31, 1955, together with the Report of the Auditor General to the House of Commons thereon.

These Reports were tabled in the House on January 13th, 1956.

Your Committee held eleven meetings in the course of which it heard the Auditor General for Canada, Mr. Watson Sellar, Mr. K. W. Taylor, Deputy Minister, Department of Finance, Mr. R. G. Robertson, Deputy Minister, Department of Northern Affairs and National Resources and Mr. D. A. Golden, Deputy Minister, Department of Defence Production.

Your Committee examined Mr. Watson Sellar at some length on his comments as contained in his Report to the House which is appended to Vol. I of the Public Accounts as well as on Departmental Accounting Practices and certain aspects of the Financial Administration Act (1951).

Your Committee obtained relevant information and pertinent clarifications from the Deputy Minister of Finance as it did from the Deputy Minister of Northern Affairs and National Resources and the Deputy Minister of Defence Production.

Your Committee also heard evidence on the production cost of 3"/50 Twin Mount Guns for the Royal Canadian Navy and the U.S. Navy. Your Committee obtained additional information thereon in particular with reference to comments by the Auditor General as contained in his report.

Your Committee desires to record its appreciation of the assistance and information which it received during its deliberations from the above-mentioned witnesses.

A copy of the Minutes of Proceedings and Evidence of the Committee relating to the Public Accounts for 1955 as considered by the Committee is appended hereto.

Respectfully submitted,

CHARLES A. CANNON,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, July 26, 1956.
(11)

The Standing Committee on Public Accounts met in camera at 10.30 o'clock this day. Mr. Charles A. Cannon, Chairman, presided.

Members present: Messrs. Anderson, Boisvert, Breton, Bruneau, Cannon, Goode, Hamilton (*Notre-Dame-de-Grâce*), Henderson, Kirk (*Antigonish-Guysborough*), McLeod, McWilliam, Ménard, Mitchell (*Sudbury*), Monteith, Pommer, Regier, Thomas and Weaver—(18).

The Chairman presented the following report of the *Sub-Committee on Agenda and Procedure*:

TUESDAY, July 24, 1956.

Pursuant to notice, the Sub-Committee on Agenda and Procedure of the Standing Committee on Public Accounts held a meeting this day at 10.30 a.m. Mr. Cannon, the Chairman, presided.

Present: Messrs. Cavers, Breton, Harkness and McLeod.

The Subcommittee considered the attached draft report and recommends its adoption as the Committee's Third Report to the House.

(*For draft reports see page 195.*)

On motion of Mr. Cavers, seconded by Mr. Breton, the sub-committee's report was adopted.

The Committee considered the said draft report paragraph by paragraph.

Mr. Breton moved, seconded by Mr. Henderson that the Chairman present the draft report as the Committee's Third Report to the House.

In amendment thereto, Mr. Hamilton (*Notre-Dame-de-Grâce*) moved, seconded by Mr. Goode, that the name of the last witness, the Deputy Minister of Defence Production, be added to paragraphs 3 and 5.

The question being put, the amendment was adopted.

On motion of Mr. Bruneau, seconded by Mr. Ménard,
Resolved,—That the Chairman present the draft report as amended as the Committee's third report to the House.

At 10.45 a.m., the Committee adjourned to the call of the Chair.

Antonio Plouffe,
Assistant Chief Clerk of Committees.
(No further proceedings for this Committee.)

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